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# WORKING PAPER ON TRADE MARKS LAW REVISION

PREPARED FOR THE DEPARTMENT OF  
CONSUMER AND CORPORATE AFFAIRS  
JANUARY 1974







WORKING PAPER ON TRADE MARKS

LAW REVISION

Department of Consumer  
and Corporate Affairs

January, 1974

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WORKING PAPER ON TRADE MARKS LAW REVISION

Letter of Transmittal

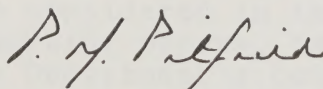
The Honourable Herb Gray, P.C., M.P.,  
Minister of Consumer and Corporate Affairs,  
Ottawa, Canada.

Dear Sir:

I have the honour to transmit to you the  
Working Paper on Trade Marks Law Revision.

This Working Paper develops a set of proposals for the revision of Canadian Trade Marks law for wide circulation to all interested members of the public. Our purpose has been to provide a basis for consultation that will ultimately lead to the progressive and effective revision of our Trade Mark legislation in the interest of all Canadians.

Yours sincerely,



P.M. Pitfield



## PREFACE

### Origins and Purpose of this Working Paper

Shortly after the release of the Report of the Economic Council of Canada on Intellectual and Industrial Property in 1971, the Honourable Ron Basford, then Minister of Consumer and Corporate Affairs, set up a small study group to consider the report and to make recommendations. At that time Mr. Basford made it clear that comments on the Council's recommendations would be welcomed from other government departments and from the private sector. As a result, a number of submissions on the Economic Council's recommendations and on other matters concerning the revision of the intellectual property laws have been received by this Department.

Mr. Basford's successors, the Honourable Robert Andras and the Honourable Herb Gray, the present Minister, have since re-emphasized the need for consultation with trade and consumer associations, industry and individuals prior to any final positions on law revision being reached by the government. It was decided, therefore, to prepare working papers on the revision of Canadian intellectual property laws for wide circulation and discussion. The recommendations contained in these working papers should be valuable in crystallizing views in these complex areas and in focusing attention on the economic, legal and technical matters that must be considered in the revision of these laws. The working papers, together with the results of the Department's consultations regarding these papers, will form the basis for the drafting of new legislation.

This paper dealing with Trade Mark law revision is the first such working paper. Papers on the subjects of Patents, Copyright and Industrial Design will follow in due course.

In this working paper some of the recommendations are presented in the form of draft amendments to the Act. These draft provisions are not presented as the final form of recommendations for statutory revision, but are included solely to assist readers in focusing on the problems outlined and to facilitate public discussion.

### Preparation of this Working Paper

The present paper has been prepared by Denis Magnusson and Gordon Kaiser, both of Queen's University, who have acted as consultants to the Department. Messrs. Magnusson and Kaiser have been assisted in their preparation of this paper by many study sessions involving a group of senior departmental officials. In addition, there have been discussions with selected professionals in the private sector, a thorough consideration of all briefs submitted to the Minister, and consultation with the Committee on British Trade Mark Law and Practice which has been studying the revision of British Trade Mark laws.

I would like to acknowledge the receipt of briefs and representations from the associations, corporations and individuals listed at the end of this preface. They have been useful in considering the implications of the Economic Council's Report and were of considerable assistance in the preparation of this working paper.

I would also like to acknowledge the contributions of the following individuals who served on the departmental study group:

Mr. R. Tassé, Q.C., formerly Assistant  
Deputy Minister, Corporate Affairs

Mr. A.M. Laidlaw, Q.C., Assistant Deputy  
Minister, Intellectual Property

Mr. J.L. Howard, Assistant Deputy  
Minister, Corporate Affairs

Mr. R.M. Davidson, Senior Economic  
Advisor

Professor H.E. English, Acting  
Director, Policy Analysis Group

Dr. R.W. James, Director, Research  
Branch, Consumer Affairs

Mr. M. Robitaille, Q.C., formerly  
Registrar of Trade Marks.

I would like to acknowledge as well, the important contributions made by many other members of the Department to the work of the study group.

I would especially like to thank Mr. John C. Osborne, Q.C.; Dr. L.A. Skeoch; Mr. Eric L. Medcalf, Q.C.; and Mr. Bruce C. McDonald who assisted the Department by reviewing in confidence the preliminary version of this working paper prior to its publication. Before publication, it would have been impossible to consult with all of those who might have had valuable comments to make on the draft of the working paper. Indeed, the purpose of publishing the working paper is to provide a basis for discussion and input by such interested and qualified persons. However the Department believed that it would be valuable to have a small group of such persons provide pre-publication comments on the preliminary version of the working paper. It should be noted that the contents and recommendations of this working paper are not necessarily representative of the views of the four above-named persons.

Given the complexity of the review process which produced this paper, and the large number of diverse recommendations and representations received, no particular recommendation contained in this working paper should be ascribed to any one person or organization. The purpose in drafting this paper has been to bring together a coherent set of recommendations for law revision as a basis for consultation with all interested persons.

In addition, the study group was assisted by the briefs from a number of associations, corporations and individuals who responded to the request by the Honourable Ron Basford for comments and recommendations on the Report of the Economic Council. The following submissions were received.

Casey P. August  
Don Mills, Ontario

The Board of Trade of Metropolitan Toronto  
Toronto, Ontario

John I. Butler  
Ottawa, Ontario

The Canadian Chamber of Commerce

The Canadian Manufacturers' Association

Robert E. Frayne  
Ottawa, Ontario

International Association for the Protection  
of Industrial Property, Canadian Group

Montreal Informals Group,  
The Patent and Trade Mark Institute of Canada

The Patent and Trade Mark Institute of Canada

E.K. Pearson  
Kemptville, Ontario

C.R. Riches  
Toronto, Ontario

F. Campbell Rutherford  
St. Catharines, Ontario

Smart & Biggar,  
Ottawa, Ontario

Union Carbide Canada Ltd.  
Toronto, Ontario  
per W.G. Hopley.

P.M. Pitfield

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As those responsible for compiling this paper we would like to express our appreciation to Mrs. Barbara Dingwall for her assistance throughout the research effort, and in particular for her tireless efforts in typing the final paper and the many drafts leading up to it.

D.M.; G.K.

## CHAPTER ONE

### THE MEANING AND ECONOMIC VALUE OF TRADE MARKS - STATUTORY DEFINITION OF TRADE MARKS

#### I. Introduction

The Economic Council of Canada (ECC) in its Report on Intellectual and Industrial Property<sup>1</sup> indicated dissatisfaction with the meaning and function of trade marks in current Canadian law and practice. Firstly, the ECC found confusion as to the meaning of trade marks under the existing law as to whether the role of trade marks was as:

- (a) indicators of the "source or origin" of the goods or services distributed in association with the marks, or
- (b) indicators of the quality or characteristics of the goods or services sold in association with the marks.

The second source of the ECC's dissatisfaction was its conclusion that trade marks under present law did not fulfill their potential as instruments for providing consumers with information concerning the products they purchase.

This Chapter examines the extent to which the ECC finding of confusion as to the meaning of marks and lost potential as product quality indicators are accurate in the light of current law and experience. It also examines the feasibility of the ECC recommendations for solving these two alleged problems. Finally, it presents recommendations for modifying the statutory definition of trade marks.

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1. Information Canada, January, 1971.

## II. The Function of Marks for Consumers

### A. Introduction

The ECC stated in its Report:

"Until recently the emphasis in studies of the trade mark system has been on the interaction among business firms who wanted protection against their trade marks being used to misrepresent another's goods or services as their own . . . . However, since we believe the buyer's interests have received inadequate emphasis, we stress it in our review."<sup>2</sup>

One task in re-examining the trade mark system then, is to adequately consider the consumer interest among other legitimate interests in such a re-examination

We have not conducted extensive empirical studies into the meaning of marks for consumers because we believe that no benefits would be derived from such studies that would warrant the costs in conducting them. However, in order to proceed with the task of making proposals for law reform we have reached conclusions concerning the consumer understanding of the role of trade marks. These conclusions are based on an analysis of the available literature and studies, and on observations by those involved in the preparation of this paper of themselves and others as consumers. We have attempted to guard against any tendency of those, like the authors of this paper, who have studied the legal and economic function of trade marks, to assume that consumers have a greater understanding of the legal status and the function of trade marks than they do in fact. We believe that the following comments are accurate concerning the attitudes of consumers towards trade marks.

### B. The Consumers' View of Trade Marks

The dichotomy posed by the ECC between trade marks as indicators of origin and as indicators of product qualities is not meaningful. When making purchas-

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2. ECC Report, pp. 190-191.

ing decisions consumers want information concerning the qualities of the goods and services they purchase. The term "qualities" should be viewed in a broad sense in this context. It includes not only the composition and performance characteristics of products but also any other factors which may be of importance to consumers, including such things as warranties, servicing arrangements and even the social status believed to be gained through the ownership or use of a particular good or service.

Consumers are not interested in trade marks as indicators of origin where "origin" is taken to mean a particular, identifiable manufacturer, vendor or production site. However, consumers do rely on trade marks as indicators of origin in the sense that the "origin" represented by a particular trade mark is some legal entity<sup>3</sup> with the exclusive right to associate the mark with goods and services in the market place. It is the ownership of this exclusive right that gives the mark owner the incentive to ensure that his mark is associated with goods and services that meet with consumer favour in order to enhance the value and profitability of his mark. Consumers often come to expect that products distributed in association with a particular trade mark will possess certain desired qualities. This expectation may come from a number of sources including past experience with the products, advertising and the comments of others regarding their experience with the products. Thus, often consumers will be most satisfied if they are able to purchase products which have the same qualities as products that they have previously purchased in association with the particular trade mark. Consequently, it might be said that marks are indicators of a "probable consistency of quality".

However, it should be stressed again that marks are indicators of quality in this way because they

- 
3. This legal entity is often unidentifiable by consumers by name or location in the modern, mass-distribution economy. The legal entity may be an individual proprietor, a partnership, a corporation or an unincorporated association.

indicate products "from"<sup>4</sup> a particular legal entity which has an economic interest in maintaining such consistency of quality. Consumers do not perceive trade marks to be representations of a certain set of fixed product characteristics. They know that the qualities of the products sold in association with a particular mark may change.<sup>5</sup> For example, consumers are very familiar with "new and improved" versions of a familiar trademarked product such as in the annual model changes of many consumer durables. Consumers know that the qualities of products sold in association with a particular mark may change for the worse, and they want the qualities to change for the better. The Economic Council's criticism of the alleged confusion in the present trade marks system as to the meaning of marks and its recommendation for improvement through the adoption of a "Product Mark"<sup>6</sup>, which would indicate an essentially fixed set of product standards, was based on a static analysis of the market place. In fact, the market place is a very dynamic institution reflecting constant changes in the various supply, demand and regulatory factors affecting it. In the future the market place is likely to become even more dynamic rather than less so.

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4. Inherent in the word "from" is the function that the mark owner performs in relation to the products trademarked. The function may amount to no more than authorizing the use of his mark in relation to the products. See below, p.11.
  5. We assume consumers are aware that they have no legal remedy against the mark owner based on the use of the mark per se if a product purchased does not have the qualities that they have come to associate with the mark.
  6. This proposal is discussed below, p. 21.

C. "Origin" As the Function Performed by the  
Mark Owner on the Products

We can further analyse the consumers' attitudes towards the meaning of trade marks by examining their understanding of the function<sup>7</sup> a trade mark owner performs in relation to the goods or services in association with which his mark is used. Consumers must at least be aware that the meaning of "source" in this sense is not the same for all trade marks. The existence of manufacturing or production marks on the one hand, and of retail or sales marks on the other is widely known. The extent to which the meaning of "source" in relation to a particular trade mark may lawfully change from time to time without affecting the validity of the trade mark is probably not so widely known. The right of the trade mark owner to change his production or sales function in relation to the product distributed under the trade mark, the right to licence the trade mark, and the right to assign the trade mark may be known to relatively sophisticated consumers but are probably unfamiliar to most consumers.

The question arises whether the consumer is deceived or injured when the meaning of source or origin in relation to a particular mark is altered in one of the ways indicated above. If our conclusion is correct that the consumer is concerned ultimately only with the characteristics of products he buys, the consumer will not feel deceived in such a case provided that the qualities of the products distributed in association with the particular mark remained satisfactory to him. However, as we have noted above the consumer does not regard trade marks as representations of fixed product qualities. Therefore he would not expect any regulation of the qualities of the products that could be distributed in association with the mark in this situation. Nevertheless the consumer does regard a trade mark as an indicator of a legal entity from which he hopes that products of

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7. The Trade Marks Act, s. 2(a) lists the functions as manufacturing, selling, leasing, or hiring wares and performing services. This is qualified by s. 49 which provides that the function may be to licence others to perform these functions.

satisfactory characteristics will continue to emanate. Consequently, the consumer may believe that there should be some restrictions on changes in the source indicated by a particular mark. For example, he may feel that he is entitled to notice of such a change so that he may be alert for any alteration of product qualities that occur as a result of the change of source.

#### D. Conclusion

In summary, it is submitted that consumers regard trade marks as performing a kind of "certification" role. To the consumer the trade mark indicates a legal entity which has an economic interest in ensuring that products distributed in association with the trade mark will continue to possess satisfactory characteristics. Further, we conclude that consumers are not concerned with what is the role of the "source" in relation to the production and/or distribution of the trademarked products. Rather they are concerned only that the essential element of the role of the source be present, that is, the power to control the use of a trade mark and thus to control the qualities of the products distributed in association with the mark.

### III. The Function of Marks for Trade Mark Owners and Users

The owner of a trade mark wants the right to the exclusive use of his mark which will identify the products placed on the market by him. The aim of the mark owner is to create and increase the "goodwill" associated with his marks, which is the reputation among consumers which causes them to prefer the products sold under the mark to products not so sold. As already noted this goodwill may be created in a number of ways including advertising, sales promotion, and the provision of products of superior quality.

If the owner of the trade mark were not entitled to the exclusive use of his mark to identify his products, he would have no incentive to enhance the good-

will attached to his mark. Others would be able to use his mark on their products and by thus confusing the public as to the "origin" or expected qualities of the products would be able to benefit unjustly from the mark owner's efforts to enhance the goodwill attached to his mark.

Mark owners and users do not want trade marks to be legal warranties of specific product qualities. Such a meaning for trade marks would limit the necessary flexibility of the mark owners to change the characteristics of their products to meet changing competitive, demand or cost situations. As well, mark owners and users do not want a narrow definition of "origin" in the sense of the function they perform in relation to the products trademarked. They also do not want restrictions on their changing the function they perform in relation to products associated with their marks or on their changing the particular legal entity which is the mark owner. For example, mark owners will want to be free to licence and to assign marks in order to fully exploit the profit potential of their trade marks.

#### IV. The Function of Trade Marks in Our Economic System

We have noted the incentive that exclusive right to use his mark in association with products gives to the trade mark owner to enhance the value of his mark to him by associating it with goods and services of superior quality in the eyes of consumers. It should be observed that this benefit to consumers assumes an effectively functioning competitive system. It is only when consumers have alternatives to particular trademarked products, are aware of those alternatives, and are prepared to switch to those alternatives should they find the particular trademarked goods unsatisfactory that the owner of the particular trade mark feels any spur to preserve and enhance the value of his mark. Therefore, we stress that an effective competition policy is a prerequisite for an effective trade marks policy.

It appears that trade marks can make a contribution to promoting effective competition in our pre-packaged, mass-distribution economic system. Consumers frequently would not be able to determine the qualities of a particular item for sale in a retail outlet or to distinguish between items of the same kind but from different "sources" (i.e., of different qualities) unless the items were distinguished through the use of trade marks.<sup>7a</sup> Competition may be enhanced by this making of consumer choices more efficient. However, the trade marks system does not always enhance the effectiveness of consumer decision-making. Mark owners are free to change product qualities for the worse in relation to a particular mark without being required to inform consumers of the change. There will be inefficiency while the consumers learn of the change through purchase experience. As well, one "source" may introduce products of inferior quality under a particular mark and it may take some time for consumers to learn of the poor quality through purchasing the product. When the poor quality of products under that particular mark has become well-known the same "source" may abandon the old mark and adopt a new one for the same poor quality products. Consumers may then go through the learning experience again in relation to this new mark through making more purchases.

However as we noted above, any regulation of the trade marks system which prevented mark owners from altering the qualities of products sold in association with their marks would prove unworkable and not in the consumers' best, over-all interests. As well, the deficiencies in the trade marks system in accurately identifying those responsible for placing goods on the market are remedied, in part at least, through other means of identifying sources, e.g., trade names, and the practice or legal requirement of naming the source on packaging.<sup>8</sup> As well, we should note that the obscurity that appears to be introduced by the trade

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7a. The ECC Report, pp. 191-193 explains the important contribution of a trade mark system in this respect.

8. Consumer Packaging and Labelling Act, S.C., 1971, c. 41, s. 10.

marks system may not always work harm. For example, one "source" may produce one product under one mark efficiently and another product under another mark inefficiently. It can be argued that the reputation of the efficiently produced product should not suffer from the reputation of the inefficiently produced product and therefore it is quite proper to identify them with different trade marks.

Another anti-competitive aspect of trade marks occurs where they function as undue barriers to entry by competitors to a particular industry or market. This can occur in the case of widely advertised, 'famous' marks. Such marks may become closely identified in the minds of consumers with the class of product with which they are associated. When consumers are in the market for that class of product they may tend to think only of products sold under the 'famous' marks. The owners of such 'famous' marks may also have an undue advantage in expanding into other product markets by using their marks.

Consumers make many purchases of products which are difficult to evaluate in the store and which individually cost relatively little. In making such purchases it is perfectly rational behaviour for the consumer, often pressed for time, to rely on familiar trade marks as signs of at least a certain minimum quality in the purchases he makes. However, in some cases reliance on such familiar or famous marks can be irrational or excessive. Such cases may include those in which a new competing entrant to the industry can easily provide products of equal or superior quality to those provided by the owners of the famous marks; the entrant asks a significantly lower price; and the risk to the consumer in at least experimenting with the purchase of the new entrant's product is minimal. In such a situation consumers may continue to purchase the new product through habit or the compelling sales power of the famous mark.

As indicated in the Chapter on Unfair Competition, below we do not recommend attacking such problem situations through a general "weakening" of the present trade marks legislative system itself, but rather propose that regulation of the unduly anti-competitive uses of trade marks be undertaken as part of the general competition law.<sup>9</sup> Nevertheless, we must be alert so that any particular aspects of the existing or proposed trade marks system with unreasonably anti-competitive effects are properly limited. For example, particularly for so-called famous marks, products of a particular class or kind or with particular qualities may become indelibly associated with a particular trade mark. In such cases we should not so extend the exclusive rights of trade mark owners so as to preclude competitors from making honest, not-misleading statements or comparisons in their advertising by referring to the famous trade mark.<sup>10</sup>

## V. Current Canadian Law

### A. Introduction

This section examines the law in the light of the criticism in the ECC Report about the confusion as to the meaning of trade mark. As already noted the ECC found confusion as to whether marks were indicators of origin or of product qualities and as to the precise meaning of "origin".

### B. Meaning of "Origin"

For decades the meaning and function of trade marks has been obscured by statements that the definition of a trade mark was that it was an indicator of "source or origin". The question of the meaning of

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9. This is an appropriate approach, particularly as the use of trade marks may only be part of an overall pattern of unreasonable anti-competitive activity in a particular case and therefore such use of trade marks should be treated in the broader context of general competition law.
  10. See the recommendations made concerning s. 22 of the Act in the Chapter on Infringement, below, p.130.

"source" in this context is essentially one of determining what function the owner and/or user of a trade mark must perform in relation to the goods or services in association with which the trade mark is used. Need the trade mark owner or user under the present Act do anything more than simply control the association of the mark with goods and services? There has been some confusion in the statutes, cases and other legal writings on this point. Some analysts state that in the early period of the development of trade mark law, in a less complex economic environment, where the consumer often dealt directly with the person responsible for producing the goods he purchased, a trade mark indicated that particular person or particular business. However, we should note that in such a situation trade marks are not really necessary to identify products from a particular source. If the consumer deals directly with the producer of the goods then he will not need to make use of any mark in order to identify goods he receives from that particular producer, which goods he has come to expect will possess certain desired qualities. It is only when the consumer becomes remote from those producing goods as in our mass-distribution economy, that trade marks are needed. Because he is remote from the "source" the consumer does not have definite conceptions as to the functions performed by the "source" or mark owner on the goods or services identified by a trade mark. This fact was recognized very early in our law in cases which made it clear that the consumer did not need to know the source indicated by a trade mark by name or location. All that was necessary was that consumers believe that some single, though unidentified source, was responsible for placing the goods into the market place in association with the trade mark.<sup>11</sup>

It was suggested in some of the earlier court decisions based on the common law in relation to trade marks that in order to be an owner of a trade mark, a person must "manufacture" the wares in association with which the mark is used. However, if that view was at any time a correct statement of the law it has long since been abandoned. The relevant portion of our Act,

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11. Powell v. Birmingham Vinegar Brewery Co., [1896]  
2 Ch. 54.

s. 2, which indicates the functions that a trade mark owner must perform in relation to the wares or services in association with which the mark is used is as follows:

s. 2 "trade mark" means

- (a) a mark that is used by a person for the purpose of distinguishing or so as to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others.

The underlined words indicate the functions that the mark owner must perform in relation to the wares or services in order to qualify as a mark owner under the Act. Presumably, a person who performs any other function in relation to goods or services (e.g., setting standards of performance and then testing to see that the standards are met) would not fall within the definition. Therefore such a person could not be a 'source or origin', i.e., trade mark owner, under s. 2 of the Act.<sup>12</sup>

One problem in defining 'source' under the Act is to establish how broad such concepts as 'sold' or 'manufactured' in s. 2 of the Act are. For example, could the franchisor of a chain of retail outlets, who does not manufacture any goods, nor sell any goods to

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12. This statement omits reference to the extent to which the mark owner may 'delegate' the performance of these statutory functions to others through the licensing provision, s. 49, or having others act as his agent. (See the Peggy Sage, case discussed below at p. 79 ). In such situations the function of the mark owner may amount to nothing more than setting or policing standards.

As well, a distinction must be made between any limitations on the function that must be performed to qualify as a mark owner under a strict interpretation of the statute, and the function that marks can and do in fact perform for consumers as discussed above, pp. 5-6.

the public, acquire an ordinary trade mark<sup>13</sup> without relying on the licensing provisions or some agency approach? Perhaps it could be argued that the provision in the statute establishing a certification mark, the purpose of which is to distinguish wares or services of a defined standard, puts a limiting point on the kind of activity in which the would-be ordinary trade mark owner could be engaged and still be said to be performing the functions necessary for the purpose of establishing himself as a mark owner under the definition of an ordinary trade mark in s. 2. If the activity merely amounted to the setting and policing of product standards, the would-be mark owner might only obtain registration of a certification mark and not of an ordinary trade mark.

However, we must consider the impact of the licensing provisions in the Act in this context.<sup>14</sup> In particular, in relation to the problem posed immediately above we should note that the would-be owner of an ordinary trade mark could file an application for a proposed trade mark together with an application for a registered user.<sup>15</sup> The effect in such a case would be that the mark owner would never have sold or manufactured goods himself but at best, only have set and policed standards for goods produced or sold by the registered user.

In further delineating the nature of "origin" as it appears in the present Act we must note that with each of the critical terms set out in s. 2 there appears to be a broad range of functions that may be performed by the mark owner. The word "manufactured" may indicate activities which involve a great deal of production input by the mark owner or relatively little such input, e.g., only final assembly of the product from a few complex parts which have been manufactured by others. The term "sale" clearly covers situations in which the mark owner does not have title to the goods he sells, e.g., a mark owner who is a commission merchant and selects the goods he sells to which he attaches his trade mark.

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13. As opposed to a certification mark. See Act, ss. 2,

14. Act, s. 49.

15. Act, ss. 39(2), 49.

As well, within the context of each of the categories of activity set out in s. 2, e.g., sale or manufacture, the trade mark owner apparently has considerable freedom to alter his mode of operations without endangering the validity of his mark. For example, a mark owner/manufacturer who originally manufactured an entire complicated machine might be able to begin to assign the manufacture of substantial parts of his product to others and then only assemble those parts without endangering the validity of his trade mark. However, prior to the revision of the Act in 1953 it appears that if the change in mode of operations was so drastic that it amounted to a shift from one category of activity listed in s. 2 to another, the mark could be invalidated as it was thought to have become deceptive of the public.<sup>16</sup> Such changes should no longer have this effect as the Act now expressly provides that a mark shall not be held invalid merely on the ground of such changes in use.<sup>17</sup>

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16. 1953 Committee, Fox, p. 1180.

17. Act, S. 48. A problem in our law is whether in the case of certain marks "origin" takes on a more specific and restricted meaning than that suggested in the outline of the text. The problem has arisen in the context of assignment and in cases where there is a change of "origin" but no assignment. See Kokonis, J.D., "Recent Trade Mark Thinking", PTIC Proceedings, 1967 pp. 106ff. It has been suggested that there are certain marks that may become so closely identified with a particular "origin", e.g., a mark indicating goods manufactured by a particular producer, that any change of the "origin" by assignment (or otherwise) is deceptive of the public and will result in the invalidity of the mark. Jackett, P. in Wilkinson Sword v. Juda (1966) 34 Fox Pat. C 77 at p. 99, note 16 appears to support this view. In referring to s. 48 Jackett, P. stresses that s. 48 states only "that a mark shall not be held invalid merely on the ground that it was previously used for a purpose other than its current use" which doesn't necessarily preserve the validity of a mark in all such cases.

Finally, we stress once more that it has been long the law in Canada that in order to establish that a particular mark indicates to the public products from a particular 'source', it is not necessary to show that consumers of the product are aware of the identity of the source. All that is needed is that it be shown that consumers believe that the product sold under the mark in question "come" from some particular though unidentified "source".<sup>18</sup>

The conclusion reached on the above analysis of the present statutory provisions which define "source" is that "source" under the Act has the same meaning as that given to the concept by consumers acting in the market place. "Source" indicates nothing more than that for every trade mark, at any given point in time, there is a single legal entity [the "owner", "source", "origin"] that has the exclusive legal right to associate the mark with goods and services in the market place.

## VI. The ECC Recommendations

### A. Deficiencies of the Existing System

#### 1. Introduction

The Economic Council's two criticisms with the present law are restated here:

- 1) confusion as to the meaning and function of marks,
- 2) failure to take advantage of the full potential for trade marks as devices for conveying to consumers information about product characteristics.

The following two sections examine the extent to which the ECC was able to support its criticism through its analysis of current trade marks law and practice.

## 2. Confusion as to the Meaning and Function of Marks

In its Report the ECC appears to believe it found some provisions in the Act in which a trade mark constitutes an indicator of an essentially fixed set of particular qualities as opposed to other provisions in the Act in which a mark constitutes an indicator of "source" in the sense of a particular, identifiable legal entity from which the products emanate (presumably in the sense of being manufactured, sold, etc. by that entity.)<sup>18</sup>

As "fixed-qualities" indicators the ECC identified certification marks which in the Act appear to distinguish products of certain defined standards from products not of those standards.<sup>19</sup> As discussed below<sup>20</sup> under the statute as drafted and administered such marks effectively indicate to consumers not that products sold in association with them meet any defined standard, but only that the marks are used with the authority of the mark owner who has the power and the incentive to control the qualities of those products. This is the same role that the ordinary trade mark performs.<sup>21</sup>

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18. ECC Report, pp. 193-194, 207-208. Since the authors of this paper believe that the alleged dichotomy is not real, they have difficulty formulating it.
  19. Act, s. 2, "certification mark".
  20. See the Chapter, Certification Marks, p.58.
  21. In the Chapter on Certification Marks, a proposal is presented which might be effective in modifying the function such marks actually perform.

The ECC also pointed to the provision in the Act permitting licensing of ordinary trade marks as one illustrating its view of marks as quality indicators.<sup>22</sup> Prior to the enactment of the present statute, the licensing of trade marks for use by others than the owners of the marks resulted in the invalidity of such marks. It was argued that a mark was an indicator of origin, where "origin" was apparently defined to mean a particular legal entity performing definite functions in relation to the products distributed in association with the mark. Therefore, it was stated that use of a mark by a licensee in association with products, in relation to which the licensee had performed the particular function (manufacture, sale, etc.), was inconsistent with the meaning of trade marks.

The 1953 Committee which drafted the present Act stated that, "... the public is not so much interested in source as in the maintenance of quality ...".<sup>23</sup> The Committee recommended that the licensing of trade marks be facilitated with safeguards to protect the public interest in the maintenance of quality

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22. Act, s. 49.

23. Report of the Trade Mark Law Revision Committee to the Secretary of State of Canada, 1953, Ottawa: Queen's Printer. Reproduced in Fox, H.G., Canadian Law of Trade Marks, 2nd Ed., 1956, Vol. 2., Appendix, pp. 1143-1182. Cited as "1953 Committee". See page 1178 of Fox.

of the products sold under trade marks when used by licensees.<sup>24</sup>

However, contrary to the view of the ECC, in recommending the licensing provision the 1953 Committee did not intend that licences be required to maintain any particular fixed set of product standards in relation to each licensed mark or that the standards remain the same after licensing as before. Rather the concern was that with licensing, there could be more than one "source"<sup>25</sup> for a product under one trade mark with the likelihood that there would be more than one quality of product sold under the same mark. The purpose in proposing the licensing provisions was to ensure that as far as possible there would continue to be only one "source" for the products distributed under a mark and that the source would remain the same after the licensing, i.e., the licensor, -- the single legal entity with the ultimate, exclusive power to determine how the mark will be used in the market place.

The ECC also pointed to the assignment provisions<sup>26</sup> of the Act as illustrating the problems it found with the alleged dichotomy in the meaning of marks under the Act. Prior to the enactment of the present statute the then current theory of marks as indicators of "origin"<sup>27</sup> caused the same

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24. The registered users provision, s. 49, requires the filing with the Registrar of any conditions imposed on the licensee by the licensor with respect to the characteristics of the products, s. 49(5)(c). The Registrar has the power to pass on the adequacy of such conditions in the light of the "public interest", s. 49(6).
25. The legal entity that can control the use of the mark in association with products.
26. Act, s. 47.
27. See above, following note 22.

difficulties for assignment of marks as it did for licensing. If marks indicated origin, then after an assignment use of a mark by the assignee (the new origin) on his products was deceptive of consumers as the mark indicated to them products placed on the market by the assignor (the original origin). Consequently, an assignment of a mark could render the mark invalid. The only exception to this doctrine was in cases in which the entire business (the "goodwill") in association with which the mark was used by the assignor was assigned along with the mark. In such cases it could be argued that the origin of the products was assigned along with the mark, therefore there was no deception of consumers when the assignee used the mark in association with products from this same origin.<sup>28</sup>

The 1953 Committee introduced an express safeguard for consumers into the assignment provision. The Committee noted that under the assignment provision there could be more than one owner and user of the same mark<sup>29</sup> because partial<sup>30</sup> assignments were prima facie permissible under s. 47(1). The proviso in s. 47(2) permits a regis-

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28. This view of "origin" is not consistent with the concept of origin argued for, above at p. 10. Our concept of origin is the legal entity which has the power to control the use of the mark. In an assignment that entity has changed. However, requiring the new entity to acquire the facilities by which the former entity 'produced' the products may make it more likely that the new entity will choose to produce products with similar qualities to those produced by the former entity.
29. Fox, 2nd Ed., p. 1179. S. 47(2) refers to a "confusing" mark which might not be the same mark.
30. Territorially or for classes of wares. See Fox, 3rd Ed., pp. 264 and 316.

tration of a mark to be found invalid if after assignment there are effectively two "sources" for the same or similar products sold under the same or confusingly similar marks. Thus while the "source" has changed after an assignment, the Act ensures that after the assignment the integrity of the mark is maintained by ensuring that there is only one legal entity that has the exclusive right to use the mark.<sup>31</sup> Thus, in justifying their relaxation of the restrictions on assignment by reference to the interest of the consumer in quality as opposed to source, the 1953 Committee did not contemplate the introduction of provisions which would ensure the maintenance of a particular fixed standard of quality for the assigned mark. Rather, the stated restriction introduced goes to ensuring that while the source may change through assignment of the mark, after assignment there will still be a single source responsible for the qualities of the products distributed in association with the mark.

In summary, the problem of confusion as to whether marks indicate quality or origin appears to be non-existent under the Act. Marks indicate "origin" in the sense in which that concept has been explained herein.<sup>32</sup>

### 3. Lost Potential as Quality Indicators

The ECC reported that trade marks do not fulfill their potential as product quality indicators. The Council developed a proposal, discussed below, which was intended to give marks an improved quality-indicator role as the ECC apparently perceived "quality": a fixed set of product standards.

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31. If there were more than one entity with the right to use the mark for the same products, the incentive of the mark owner to preserve and enhance the value of his mark would be weakened. See above, p.3.
32. See above, p. 3.

## B. The ECC Proposal

The Council recommended that three types of marks replace the present trade mark and certification mark:

- i) TM Mark: The existing trade mark. No licensing would be permitted but assignment would be allowed.
- ii) PM Mark: A new mark. The registrant would have to file product standards for the mark. Licensing and assignment would be permitted.
- iii) CM Mark: The present certification mark.

The most important innovation that would be introduced by adopting the ECC proposal would be the new PM mark. The product standards which would be filed for each mark would be determined solely by the mark owner without any power in governmental administrators to accept or reject the standards filed. The Council envisioned the government setting neither, i) minimum standards of disclosure for product standards, nor ii) minimum product standards.

The only role that the government would play in the filing of standards is that, "Where the standards take the form of technical specifications, the Trade Marks Office could, upon request and with the cooperation of the applicant, undertake to assist in translating these specifications into terms more meaningful to potential purchasers."<sup>33</sup> As well, the government would not engage in any inspection to ensure that the products actually conformed to the filed standards. The standards filed for PM marks would be available for public inspection. The ECC points out that the current legal requirements and practice in relation to standards filed for certification marks and standards filed in

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33. ECC Report, p. 209.

registered user applications are very similar to the ECC PM mark standards proposals.

### C. Evaluation of the ECC Proposal

The evaluation of the Council's proposal concerning TM marks and PM marks should measure how successfully the proposal remedies the alleged deficiencies of the existing mark system.

#### 1. Confusion as to the Meaning of Trade Marks

The first problem identified by the Council was the confusion created among consumers as to whether marks indicated origin or quality. We have expressed doubts above,<sup>34</sup> as to whether there is any confusion on the part of consumers on this basis.

The ECC's proposal is designed to clarify the legal status of marks by requiring their registration as either a TM (origin) mark or a PM (quality) mark. It is impossible to draw this dichotomy in practice. The TM mark would continue to be used as are ordinary trade marks under the present law. Consumers would continue to be unknowing and probably not-caring in most cases about the identity of the specific legal entity that was the 'origin' for any TM mark. TM mark owners would promote and advertise their marks to convince consumers that they stood for desirable product characteristics and consumers would rely on them as they do present trade marks as indicators of probable consistency of quality. It would not be possible to place any meaningful or workable restraints on the advertising and use of TM marks that would prevent consumers from regarding them in the way suggested here.

As to PM marks, consumers would not likely draw any distinction between them and TM marks.

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34. See above, p. 2.

In fact, there would be no such distinction. PM marks would be indicators of origin as much as TM marks as the owners of the PM marks would have the exclusive right to use or to authorize others to use the marks. As with the TM mark and the present trade mark it would be this exclusive right that made the mark serve the consumer interest by giving the mark owner the incentive and the power to control the characteristics of wares and services distributed in association with the mark. As explained below<sup>35</sup> the standards filing requirement would be meaningless and would not make these marks indicators of any specific set of useful product standards. If it were proposed to make the PM mark an indicator of standards by permitting use by anyone who met the filed standards,<sup>36</sup> the mark would not be used by businesses which would not tolerate loss of the exclusive right to control use of their marks.<sup>37</sup> Experience with the present certification mark, when used in the manner in which the PM mark would be used, i.e., by traders and not by 'non-profit' agencies whose sole interest is in certifying standards, indicates very strongly that no meaningful distinction could

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35. See p. 24.

36. There would be significant administrative problems to be solved in any such approach. See the Chapter on Certification Marks, p.68.

37. This would apparently force use of the TM mark. Since that mark could not be licensed, mark owners would be in the same dilemma that they faced prior to the introduction of the present Act, s. 49. Then many mark owners licensed their marks despite the existing law which meant that there was a great risk of invalidating the marks. See the Chapter on Licensing, below, p.79.

be drawn between the TM and PM marks.<sup>38</sup>

## 2. Fulfilling the Quality (Standards) Indicator Potential of Trade Marks

The ECC proposal for a PM mark was also designed to remedy the deficiency the ECC found in the present trade marks system in the failure to take full advantage of the potential for trade marks in providing consumers with data about the qualities of products.

If the ECC proposal were to meet its objective of having PM marks as product standards indicators, then mark owners would have to have an incentive to register their marks as PM marks rather than TM marks. In practice the incentive for mark owners to register their marks as PM marks rather than TM marks would apparently come from two factors. First, as PM marks would be the only type that could be licensed and as in Canada licensing is frequently necessary because of the wide geographic spread of markets and the large role of foreign owners of Canadian marks, many mark owners might be forced to register their marks as PM marks. Secondly, it might be hoped that with publicity given to the PM mark system by governments and owners of PM marks, such marks might come to be regarded as stronger marketing tools than TM marks since the public might come to prefer to purchase products sold under PM marks rather than those sold under TM marks because of the additional data available from the PM mark.

The next problem would be to get complete and accurate standards filed by PM mark owners. The incentives to full and accurate disclosure of

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38. See below, p. 58. Many present certification marks are the same as the ECC's proposed PM mark. The ECC statement, "Nearly all current owners of certification marks, however, are organizations interested in the maintenance of certain independently defined standards, such as trade associations and standards organizations." (ECC Report, p. 208) is not quite accurate.

PM mark product standards on the register would come from two sources. First, any misleading standards would be treated as misleading advertising when the PM mark was used. There are sanctions for misleading advertising in s. 7 of the Trade Marks Act, the Criminal Code, the Combines Investigation Act, the Consumer Packaging and Labelling Act, and the common law for innocent and fraudulent misrepresentation and the tort of deceit. Second, it might be hoped that competition would develop among owners of marks for the same products in having the most complete, accurate and useful set of registered product standards. This development would be encouraged to the extent that individual consumers, consumer associations, the press, governments and competitors investigated and publicized comparisons of the filed standards for the same products.

However, it seems very likely that the information in the standards actually filed would not be very useful for consumers. As the nature of the standards would be entirely up to the mark owners, the standards of disclosure might vary enormously. Some standards might be worthless for their vagueness and generality, being little more than the owner's advertising slogans. There might be considerable incentive to file such standards to avoid the costs of developing meaningful standards, to avoid revealing trade secrets or other useful data to competitors or others who might make commercial use of them, and to avoid subjecting the owner to potential liability for inadvertent misleading advertising. The other extreme in standards would be the highly technical standards, comprehensible only to an expert. The ECC suggests that the Trade Marks Office should assist mark owners in translating such specifications into easily understood terms. This is an unrealistic recommendation as the submission of a substantial number of such standards over a broad range of complex products would require considerable, diversified, expert staff which the Office

does not now possess and would have difficulty obtaining.

A further problem arises in relation to the many products that are constantly changing in characteristics. Such changes would have to be filed, the costs of which might discourage mark owners from filing meaningful, detailed standards which would be affected by product changes. A further difficulty would be that the value of the filed standards would be greatly reduced if it were not possible to make meaningful comparisons among competing products. As the government is to set no standards for uniform disclosure, in many cases such comparisons might prove impossible. Yet another problem would be, as the Council has pointed out, that one mark is often used in a great number of ways on many different products. The result of the ECC system applied to the present uses of such marks would be a large number of different, constantly changing standards filed for each of such marks. Any attempt to restrict the use of such marks to reduce this confusion would meet with great resistance from industry and at least during a considerable necessary transition period, any such change would in itself result in much confusion among consumers.

Given that useful filed standards could be obtained, the next task would be to get the data to consumers for use in purchasing decisions. Theoretically, the information in the product standards files might reach the public through various channels. As the standards would be available for public inspection, individual consumers might consult them. However, even if the files were duplicated and available in a number of centers in Canada, this would not likely be an effective method of getting the data to large numbers of consumers. More likely, the information would have to reach the public through the efforts of consumer associations, the press and whatever initiatives the

government chose to take in disseminating the data. However, these channels would not likely be very effective if our experience to date is any guide. Imposing requirements on PM mark owners to disseminate such data might discourage some businesses from registering such marks to avoid these added costs. As well, such requirements would encourage the filing of minimal information in standards to reduce the costs of disseminating the information.

Perhaps the most objectionable feature of the ECC proposal is that consumers might misunderstand the government role in administering the PM mark system. It might naturally be assumed that if the government were requiring or accepting the filing of product standards, it i) must at least be setting the minimum amount and the form of the disclosure, ii) is probably testing the products to see that they conform to the standards, and iii) may well be setting minimum acceptable product standards. It seems that this belief might persist even after attempts to educate the consumer as to the true state of affairs. To the extent that this were to happen, it would lull consumers into a dangerous belief in government-regulated security in their purchasing.

In summary, the ECC set too ambitious a role for trade marks in a consumer information system. As a mark is typically only one or a few words, or a simple design, not generally chosen with the view of giving the consumer much useful data concerning the product but rather with the aim of selling the product, a mark is inherently very limited in the amount and type of useful information that it can convey to consumers.<sup>39</sup> As the Council states in its Report,<sup>40</sup> trade

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39. The ECC concedes this fact in its Report, p. 193.

40. ECC Report, p. 196.

marks are only one element in an array of means for giving consumers data concerning products. Information of the kind that the ECC sought to embody in trade marks, can be better conveyed and be of higher quality by the use of other means.

## VII. Foreign Law as a Comparison

### A. United States

The law and practice in the United States are similar to that in Canada as far as the meaning and function of marks is concerned. The Lanham Act of 1946 defines "trade mark" in s. 46 as follows:

"... includes any word, name, symbol or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."

As in other jurisdictions considerable pressure developed to permit licensing of marks and the courts responded to this pressure by developing the 'guaranty' theory of marks. Under this approach marks could be licensed provided that the mark owner set and enforced product standards when the mark was used by a licensee.<sup>41</sup> This approach received statutory recognition in the Lanham Act in which use of a trade mark by a "related company" to a registered owner or applicant for registration is deemed to be use by the registrant or applicant.<sup>42</sup> "Related company" is defined as follows:

"... any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used."<sup>43</sup>

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41. "Trademark Licensing: The Problem of Adequate Control", (1969) 59 T.M.R. 820 at 822.

42. Lanham Act, s. 5.

43. Lanham Act, s. 45.

This approach affirms that it is control over the use of the mark by a single legal entity that is the essence of the meaning of "source or origin".

## B. Britain

Canadian law has British origins thus the two trade mark systems share the same basic principles. However, the British Trade Marks Act, 1938 introduced a definition of "trade mark" which may have substantially different implications from the Canadian definition contained in s. 2 of our Act. The British definition in s. 68(1) is as follows:

"... a mark used or proposed to be used in relation to goods for the purpose of indicating, or so as to indicate, a connection in the course of trade between the goods and some person having the right either as proprietor or as registered user to the use of the mark, whether with or without any indication of the identity of that person, ...".

The English legislation merits some comment here as a comparison between the two statutory definitions helps to delineate some of the problems we initially perceived with the Canadian definition. As well, adoption of the British definition for our Act was considered at some length until ultimately rejected.

The interesting feature for our purposes of the British definition is the use of the words, "... to indicate a connection in the course of trade between the goods and some person having the right ... to use the mark." (The underlined words being of particular importance.) These words as they have been interpreted by the courts are the critical words in defining the function that the trade mark owner must perform in relation to the products in association with which the mark is used. The words in the Canadian definition performing the same purpose are, "... to distinguish wares or services manufactured, sold, leased, hired or performed by him ...". Therefore, the words in the

Canadian Act defining the functions that the would-be mark owner must perform in relation to the products appear to be more restrictive than the analogous words in the British definition.

The language replaced in the pre-1938 British Act was, "... by virtue of manufacture, selection, certification, dealing with or offering for sale."<sup>44</sup> The British Committee which reviewed the pre-1938 law and recommended the form of the 1938 Act indicated that they believed that the enumeration of the permitted functions of the mark owner in relation to the products was restrictive and could be omitted subject to the inclusion of the limitation "in the course of trade". They recommended the phrase "in the course of trade" in order to ensure that "... persons who intend themselves to use the marks but do not actually trade in or deal with goods, for example persons concerned in the professions, Headmasters or Governing Bodies of Schools, and Insurance Companies ..." did not obtain marks.<sup>45</sup>

Our initial reaction to the Canadian definition was like that of the British Committee to the pre-1938 British definition. That is, we believed that the statutory list of functions that a trade mark owner may perform in relation to the products was too restrictive and not necessarily consonant with either the actual use by mark owners of their marks or the understanding of consumers of the meaning of marks. Our impressions were that the complex and varied nature of modern commerce and the legislative changes of 1953 had reduced the effective meaning of trade marks to a very elementary level.<sup>46</sup> We believed and still believe that all the consumer can safely rely upon in relation to the legal meaning of marks and their actual function is that for each mark, at any given point in time, there

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44. Trade Marks Act, 1905, s. 3. See Report of the Departmental Committee on the Law and Practice Relating to Trade Marks, London, 1934, p. 7. Hereinafter referred to as "British Committee".

45. British Committee, p. 9.

46. See above, p. 3.

is some single entity that has the legal power to control the use of the mark and thus ultimately to control the characteristics of the products distributed in association with the mark.

We were confirmed in our beliefs by an examination of the functioning of the certification mark. Such marks, from the language in the Act,<sup>47</sup> appear to have a legal definition and function of distinguishing the wares or services in association with which they are used as being of a defined standard,<sup>48</sup> from wares and services not of that defined standard. We noted that such marks were being used by traders in ways that would be indistinguishable by consumers from the use of an ordinary trade mark. Further, we noted that the effective, legally regulated function of certification marks when used by non-traders, e.g., non-profit standards certifying agencies like the Canadian Standards Association, ("C.S.A.")<sup>49</sup>, was essentially no different for the consumer than the use of certification marks by traders or the use of ordinary trade marks by traders. That function is to indicate to consumers that for each such mark there is a single legal entity that has the power to control the use of the mark and therefore the characteristics of the goods or services in association with which the mark is used. Any more specific information that the consumer has in relation to the particular product characteristics that any such mark can safely be relied upon to indicate comes from the "education" of the consumer as to the meaning of the particular mark through consumer experience with marked products, advertising, etc. This "education" process is similar to that in relation to ordinary trade marks although in many cases the consumer learns that the "non-profit" certification marks can be relied upon to indicate more specific and reliable standards than most ordinary trade marks. The present standards filing procedure and statutory definition of certification

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47. Act, s. 2, "certification mark".

48. The certification mark owner is to define the standard and file it with the Registrar at the time of the registration of the mark. Act, ss. 2, "owner"; 29(f).

49. See Leggat, Robert F. Standards in Canada, 1970, Information Canada, for Economic Council of Canada and Science Council of Canada, p. 113 ff. for a discussion of the C.S.A.

marks do not appear to play any significant role in the effectiveness of certification marks in giving specific, reliable data to consumers about the characteristics of products.<sup>50</sup>

Consequently, we believed that a new definition of 'trade mark' should be adopted which would encompass the existing certification mark and the full range of functions that mark owners perform or would like to perform in relation to the products distributed in association with their marks. In the process of developing such a definition we looked to the current British Act. At first, the phrase "a connection in the course of trade" was attractive as encompassing all of the functions performed by mark owners upon their products.<sup>51</sup> However, we ultimately abandoned the idea of adopting it or any similar approach for the reasons discussed below.<sup>52</sup>

However, before turning to a discussion of the problems involved in adopting the British Act definition it should be noted that the British are in the process of re-examining their own legislation.<sup>53</sup> Submissions

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50. In the Chapter on Certification Marks, below, p. proposals are presented to modify the standards filing procedure which might make the modified procedure effectively contribute to the role of such marks.

51. However, in the light of our desire to incorporate all existing certification marks within a single new definition of 'trade mark', without a separate definition of "certification mark" and considering the comments noted above [at note 45] on the purpose of including the phrase "in the course of trade" in the British definition, we believed that we would have to delete that phrase in order to achieve our purposes.

52. See below, p.41.

53. The "Committee on British Trade Mark Law and Practice" is conducting this review.

have been made to the committee studying the revision of the British Act concerning inadequacies in the existing definition of "trade mark". Below, we quote extensively from one such submission with our comments.<sup>54</sup>

"In our opinion an essential defect in the existing definition is that it fails to preserve a clear distinction between the facts that are true of a trade mark without necessarily being apparent to the public, and the facts that are made apparent to the public by the trade mark. We think that it fails to observe this distinction when it uses the word "indicating". In our view the word "indicating" must refer to the effect of the trade mark on the viewer or hearer to whom it is addressed. Marks advertised on a nationwide scale are clearly addressed to the retail purchaser, and hence a statement that such a mark "indicates" or "denotes" a connection between the goods and a person means nothing if it does not mean that the public knows the identity of the person connected with the goods, and as we have observed it very often does not mean this at all."

"In drafting the present Act in the nineteen thirties an attempt was made to introduce a definition on new lines which said nothing at all about the proprietor. A particular wording put forward was as follows:

"A 'trade mark' shall mean a mark used or proposed to be used upon or in relation to goods for the purpose of distinguishing the goods from other goods of a like character".

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54. "Initial Memorandum of Evidence to the Departmental Committee on Trade Mark Law", (November, 1972) The Journal of the Chartered Institute of Patent Agents p. 44. All footnotes are added as are the parenthetical comments.

Unfortunately this wording was (and is) open to the serious criticism that it makes a trade mark include an ordinary adjective e.g. black coats are distinguished from blue coats by the word black."<sup>55</sup>

"When a member of the public sees a trade mark for the first time it conveys nothing at all to him."

[[This statement is not necessarily accurate. When a consumer encounters for the first time a new trade mark associated with a product, he is likely to assume that some unidentified, single legal entity at least wishes to claim the exclusive right to identify products using that mark. Further the consumer understands a representation by the mark user that if the consumer will try this particular product the mark user hopes and perhaps expects that the consumer will be satisfied with the qualities that the product possesses. Still, further there is the implied representation that if the consumer is satisfied with the product he may return to the market place and purchase the same or similar products under that same mark and may reasonably expect to get an item with the same satisfactory qualities as the first item. This expectation is reasonable as the later purchased items will appear on the market in association with the mark only under the authority of the same one legal entity that authorized the placement of the first item in the market. That legal entity is likely to ensure later products have the same satisfying qualities as the first item, because in that way it will reap the profits of repeated consumer purchases. As well, there is the representation that the later products will not

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55. The definition of "distinctive" in our Act, s. 2 suffers from the same problem. The definition can be given meaning by referring to the definition of "trade mark", s. 2 which defines the relevant criteria for distinguishing: "... to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others."

appear under the authority of some other legal entity which might have differing views as to what were appropriate qualities for that class of product.]]

"In fact it appears to us that under modern conditions a trade mark normally indicates two things to the public. On the one hand it indicates that all goods of a similar kind which do bear the trade mark have a common source and on the other hand it distinguishes goods bearing the trade mark and emanating from a particular source from goods not bearing the trade mark and not emanating from that source.<sup>56</sup>

The definition quoted above relies upon the function of distinguishing and on this basis we have ourselves considered a possible definition on similar lines. However, a definition based on distinguishing presupposes that there is a competing product from which the product bearing the mark is to be distinguished. In some cases, notably where a product is covered by strong patent protection, there may be no competing product on the market, and in these circumstances the test of actually distinguishing the product from a non-existent competitor appears to us to be somewhat artificial."<sup>57</sup>

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56. Remembering that "source" means simply the one legal entity with the exclusive power to control the use of the mark.
57. Perhaps, but we submit that it is meaningful for consumers to distinguish the products marked from potential or future competitors. Would-be competitors facing the substantial barrier to entry of a famous trade mark certainly find the distinguishing to be other than "artificial".

"It must also be remembered that while all goods of a similar kind bearing the same trade mark must have passed through the same trade channel (or related trade channels) the converse is not true. Often the same proprietor sells identical goods under several different marks, and these clearly cannot serve to distinguish the sources of the goods from each other."<sup>58</sup>

"With all these considerations in mind we think that a trade mark is a mark that:

- (1) is adopted by some person with the intent that it shall be used only by him or by someone else with his permission, or by both;
- (2) is used or intended to be used in relation to goods connected in the course of trade with him or a permitted user;
- (3) is used for the purpose of distinguishing his goods or those of a permitted user from any competitive goods.

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58. Source is only the entity with the exclusive right to control use of the mark. While perhaps artificial it could be argued that the single legal entity which owns such marks in such a case had decided to subdivide itself into a number of different entities. Each such entity is separate in that the existence of different marks gives the possibility and probability of following different policies for each mark in relation to the characteristics of the products sold. The artificiality introduced is no greater than that of the single holding company which has subsidiaries each using different marks.

An alternative definition is that a trade mark is a mark that:

- (1) is or has been adopted by some person with the intent that it shall be used;
- (2) only in relation to goods passing to the market through a trade channel the source or other part of which that person controls;
- (3) and only in such a way that the mark is or will be effective to distinguish goods passing through the part of the trade channel which that person controls from goods which do not pass through that part."

"A weakness of paragraph (3) of each of the above definitions is that they assume that there are competitive goods from which the goods bearing the mark are to be distinguished. This may not always be the case, yet we believe that the mark always fulfils a function in linking goods which do bear it. A third possible definition is therefore as follows:

A trade mark is a mark that is or has been adopted by some person (the proprietor) with the intent that it shall be used only in relation to goods passing to the market through a trade channel the source or other part of which is so connected that the proprietor can exercise control over the character or quality of all goods of a certain description in relation to which the trade mark is used."

[[End of quotation]]

From the C.I.P.A. analysis and our own considerations we reach the conclusion that in order for a person to claim a trade mark there should be three elements present:

- 1) The owner must claim the exclusive right to use the mark. Therefore, a definition could read in part:

"'Trade mark' is a mark that

a) is adopted by some person with the intent that it shall be used only by him."

- 2) The use of the mark must be use in relation to wares or services that pass through trade channels. However, the trade mark owner need not be a part of the trade channels in any way except authorizing the use of his mark at some point in the trade channels on such conditions as he sees fit. Definition continued:

"b) is used or intended to be used by such person or persons only in relation to wares or services connected at any point of the course of trade in such wares or services with such person or persons."<sup>59</sup>

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59. Such a definition would permit certification marks to be included in the definition of trade mark. 'Non-profit' certification mark owners are not part of trade channels. See above, p. 13. "Connected at any point of the course of trade" should include all licensing arrangements if the British Courts' approach in cases like Bostitch, et al are followed. See below, p. 86.

- 3) The ultimate purpose and effect of the whole exercise must be to give the trade mark owner the ultimate power to determine the characteristics of the wares and services distributed in association with his mark. Definition continued:

"c) is used or intended to be used with the intent that through the exercise of an exclusive right to so use the mark such person can exercise control over the character or quality of such wares or services." 59a

#### VIII. Recommended Approach

##### A. Filing of Product Standards for Marks

We recommend rejection of any extension of the filing of product standards with the Trade Marks Office for any type of mark as the ECC recommended for its proposed PM mark. As discussed below, there are difficulties with the present certification mark standards largely because they are not subject to examination and approval by the Office for their utility and adequacy. Recommendations are made in the Chapter on Certification Marks to modify the certification mark standards filing provisions in an attempt to remedy the serious defects. It is recommended there that the modified provisions be continued for a trial period to determine if a useful and meaningful standards filing approach can be developed for any marks.

There remains the question that if the ECC proposals for the better utilization of trade marks to provide consumers with more and better product information are unworkable, what alternatives should the government pursue in this area?

Advertising and information on packages and labels are generally more informative about product qualities than are mere trade marks. One government initiative already taken is to attempt to ensure that

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59a. We are not recommending the adoption of this definition. See p. 41.

such information is not misleading.<sup>60</sup>

A further initiative is to encourage research and publication by consumer associations through the giving of financial grants by the government.

More directly, the government can undertake the establishment of standards for various products and encourage or enforce the use of such standards. The government already carries on such kinds of standards activity, particularly in such product areas as foods and drugs. This approach represents a more fruitful area for future development than the ECC proposal for PM marks. The report Standards in Canada dealt with the great number of problems encountered in setting standards in general and for consumer goods in particular.<sup>61</sup> For many products the establishment of meaningful standards will involve the spending of relatively large sums of money and the development of new expertise which will take considerable time. The government should gradually extend its activity in products standards as resources become available.

The Consumer Bureau of the Department of Consumer and Corporate Affairs has been engaged in a program of research concerning informative labelling for some time. In the course of this research that Bureau has encountered the very difficult problems involved in setting standards referred to above. The most recent approach of the Consumer Bureau to the standards problem is more promising than the unworkable ECC PM mark proposal. The approach would involve the development of an informative label called a "CAN-TAG". Several meaningful standards would be developed in cooperation with industry for a particular product, e.g., for refrigerators: exterior and interior measurements, shelf space, interior space, temperature

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60. Consumer Packaging and Labelling Act, SC, 1970-71-72, C-41; Combines Investigation Act, RSC, 1970, C-23. The latter Act in the process of revision at the time of writing.

61. Leggat, Standards in Canada, ECC and Science Council of Canada, 1970, p. 91.

range and power consumption under standard conditions. The proposed system would be voluntary so that if a manufacturer or distributor decided to use the CANTAG he would obtain a licence from the Department. A tag would then be attached to each item which gave the information for each of the standards for that item.

This approach would appear to meet several of the serious problems discussed above concerning the PM mark proposal.<sup>62</sup> When the consumer was shopping, the standards information would be available to him on the product in the store. The standards set would be selected under government supervision for their relevance to the consumer's buying decisions. The standards would be uniform so that meaningful comparisons could be made among all competing products that had CANTAG labels.

#### B. A Proposed Definition of "Trade Mark"

As indicated above initially in the research, the definition of 'origin' contained in the present Act (s. 2) appeared to be too restrictive.<sup>63</sup> The definition appeared to reflect attitudes of an earlier period in the development of trade mark law and practice. Modern production and marketing arrangements might be too complex and diverse to fit easily within the existing definition of origin. Flexibility and experimentation in production and marketing are frequently in the interests of consumers and mark owners as they may result in lower costs and better products or service. The essential purpose of trade mark law is in focusing responsibility, enforced through the mechanism of the market place, for products placed on the market under particular marks. Therefore, a totally new<sup>63a</sup> definition of "trade mark" that would retain that essential purpose, yet introduce greater flexibility and generality into the concept of origin was considered.<sup>63b</sup>

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62. See above, p. 23.

63. See above, p. 28.

63a. For the Canadian Act.

63b. See above, pp. 36-37.

However, as attractive as that approach appeared, particularly because of its straight forward logic, its adoption has not been recommended for certain practical reasons. The approach taken has been somewhat cautious in recommending the retention of the present definition of "trade mark" with some modifications described below.

The present definition appears to function reasonably well in many respects. On the analysis above, it is suggested how consumers perceive trade marks under the existing law and that perception is the only possible one in our view. There was hesitation to recommend a radically new definition that might throw the law and business values into a period of uncertainty while businessmen, trade marks practitioners and the courts wrestled with the new definition. There was particular reluctance to embark on such a course when the effect hoped to be achieved by such an approach could be achieved by retaining the present definition and introducing less sweeping changes in certain other parts of the Act. One problem was to rationalize the law concerning certification marks, licensing and assignment with the above views on the nature of marks. Also, the definition of "trade mark" must be sufficiently broad to encompass the views stated on the nature of trade marks. These objectives could be met by introducing amendments in other parts of the Act and by modifying the definition of "trade mark" in the manner suggested below.<sup>64</sup>

A further problem in relation to a totally new definition was that in the analysis there was considerable speculation concerning consumers' understanding of marks without the benefit of empirical studies. While it appears the conclusions were accurate, it may be that some consumers have at least certain minimum expectations concerning the functions that the 'origin' performs in relation to the products sold in respect of a few particular marks. This factor also increased our reluctance to depart radically from the established definition.

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64. See p. 44 , below.

Most importantly, there was concern about the implications of certain British court decisions which indicate that the British Act definition of "trade mark" permits licensing of marks outside the registered user provisions of the British Act. Such a result is perfectly consistent with the very broad concept of origin discussed above. Such licensing could be sufficient to amount to "a connection in the course of trade" between the licensor and the goods trademarked. However, there are still many unanswered questions about the required nature of the licensing in order to have it fall within the definition. Is it sufficient that the licensor has inherent power to impose restrictions on the licensee's use of the mark as a condition of entering into the licence? Is it sufficient that the licensing agreement provide for control over the licensee by the licensor or must those provisions actually be carried out in practice? What kind of control provisions are necessary in the licence?

Thus, the provision requiring a connection in the course of trade leaves the question of the nature of that connection to be worked out by the courts. While there is some guidance in recent British cases the authors believe that there are still too many unanswered questions for us to adopt the same approach.

By keeping the present definition, but introducing the related persons concept there is a definition of sufficient flexibility to meet the legitimate needs of mark owners, but in defining "related persons" in the statute the unanswered questions posed above arising from the British definition may be answered.

Further, in the Chapter on Assignment and Licensing, below<sup>65</sup> there are recommendations for requirements on licensing and assignment unrelated to our concept of "origin". Such restrictions might be difficult to apply effectively with the adoption of the British definition of trade mark which raises the problem of licensing outside the specific licensing provision of the Act.

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65. See below, p. 115.

## C. Suggested Amendments to the Act

### 1. Introduction

The objectives outlined above might be achieved by amending the definition of "trade mark" along the following lines:

- (a) a mark that is used by the owner or persons related to the owner for the purpose of distinguishing or so as to distinguish goods or services manufactured, processed, produced, sold, distributed, leased, hired or performed by the owner or persons related to the owner from those manufactured, processed, produced, sold, distributed, leased, hired or performed by others.

(Underlined portions are new)

A brief explanation of the suggested changes follows.

1) Owner: Under the analysis of the meaning and function of trade marks above, reference was made to the single "source" that had the ultimate power to control the use of the mark. In the suggested definition, above, that entity is referred to as the "owner" of the trade mark.<sup>66</sup>

2) Persons related: The suggested definition of "persons related" is given below. The purpose of introducing this part of the definition is to give the definition sufficient

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66. In the British Act it is the "proprietor", Trade Marks Act, 1938, s. 68(6) "trade mark". In the Lanham Act in the US it is referred to as the "owner", s. 1 of the Act. A possible definition of "owner" is discussed below in the Chapter on Use, p. 250.

scope to encompass any use of the mark ultimately controlled by the single "source", i.e., the owner. The control of the owner over the use by the related persons can come from company share ownership or through appropriate licensing agreements.

3) Goods: This term is used in both British and US Acts and in international agreements. It seems to be a more common term than the slightly archaic "wares". No change in the law should result from this change of words.

4) Produced: A broader term than "manufactured" which it would well replace. It should include agricultural production, for example. In general, the purpose here is to ensure that the range of functions that a mark owner may perform in relation to the products in association with which his mark is used is as broad as it is suggested it should be in the analysis above.

5) Processed: Introduced for similar reasons to "produced". The term is designed to include trade marks applicable to processes through which goods may pass before reaching the market, e.g., the making of cloth, which is manufactured into clothing, shrink-resistant.

6) Distributed: This term is designed to broaden the concept of "sale" and is designed to include the free distribution of a product in association with a trade mark.

The definition of "persons related" should be of the following nature:

"s. 2A For the purposes of this Act a person shall be related to another person or persons as herein provided:

(a) persons are related if they are companies that are members of a group of two or more companies one of which, directly or indirectly, owns or controls otherwise than by way of security only shares of the other companies carrying more than 50 per cent of the votes for the election of the directors of those companies, and such voting rights are sufficient, if exercised, to elect a majority of the directors of the other companies; and

(b) persons are related where they are parties to any licensing agreement or arrangement pursuant to Section 49 [as amended] as licensor or licensee, whereby the licensor as the owner of a trade mark authorizes or permits another person as licensee to use such trade mark for any period of time, definite or indefinite, with or without consideration in which the owner of the trade mark or a person related to him under paragraph (a) of this subsection retains any right of reversion or other interest in the trade mark rights so licensed.

(c) where one person is related to another under either paragraph (a) or (b) in this subsection, that person is related to every other person to which that other person is related."

In general, the purpose of defining "related persons" in this manner is first, to provide for adequate control by the owner over use of the mark by related persons. Second, there should be a definition wide enough to encompass the submission made in the analysis above that any use effectively controlled by the owner should have the same effect for all trade mark purposes as use by the owner himself.

Part (a): This is basically the definition of "related companies in the present s. 2. The proposed definition of controlled companies is in terms of more than 50% voting control. A possible criticism of this definition may be that it does not include cases in which there is actual control with less than 50% voting control. It is submitted that there is no definition that could include such cases which would not introduce undesirable ambiguity and uncertainty.<sup>67</sup> As well the purpose of the definition is to define "source" in the trade mark context. It is necessary to ensure that the trade mark owner will exercise control over the controlled companies in relation to the nature of the products trademarked. With less than 50% voting control we may not be certain that such control is present. Furthermore, in cases in which there might be actual control through the holding of substantial block but less than 50% of voting control, the trade mark owner may often choose to protect his interests in the

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Definitions of "control" in legislation such as the Securities Act of Ontario, the Business Corporations Act of Ontario or the proposed Canadian Business Corporation Act which refer to less than 50% voting control require much less than the minimum amount of control required for these purposes. Such definitions, referring to ownership of 10% of the voting shares for example, are introduced to define "insiders" or ensure the independence of the auditors from the corporation retaining them.

in the mark by retaining ownership of the trade mark and not permitting the less-than-50%-controlled-company to become the registered owner of the mark. In such cases, use of the mark by the latter company is likely to take place pursuant to a licensing agreement which would bring the case within paragraph (b) of the suggested definition.<sup>68</sup>

Part (b): The licensing must take place pursuant to the suggested, new s. 49. It is recommended<sup>69</sup> that Section 49 provide as follows:

- 1) Both registered and unregistered marks be deemed to be and to always have been capable of being licensed for use by a person other than the owner of the mark, provided that the provisions of and the performance by licensor and licensee of the licence comply with the requirements of Section 49 as amended.
- 2) Licensing may take place for registered marks for any or all of the goods or services for which the mark is registered and for unregistered marks only for those goods or services<sup>70</sup> for which the mark is in fact distinctive at the time of licensing.

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68. The proposed language is adopted in part from Bill C-213, s. 2(3), First Session, 29th Parliament, 1973, first reading, July 18, 1973. See also The Business Corporations Act, 1970 of Ontario, s. 1(5). Lavine, The Business Corporations Act, pp. 25-26 discusses the need for drafting in this particular form.

69. See the Chapter on Assignment and Licensing, below at p.100 for the suggested amendments to Section 49.

70. At common law, marks identifying services did not receive protection. See S. 7 of the Act.

- 3) A licence under s. 49 must provide for effective control by the licensor over the manner of use of the mark by the licensee and over the nature, character and quality of the wares or services in association with which the mark is used by the licensee.
- 4) A licence under s. 49 must provide for the effective monitoring by the licensor of the manner of use of the mark by the licensee and of the nature, character and quality of the wares or services in association with which the mark is used by the licensee.
- 5) A licence under s. 49 must actually be performed throughout its terms according to the requirements in paragraphs 3) and 4), above.
- 6) The Governor in Council shall have the power to enact regulations to prescribe what must be the terms of licences under paragraphs 3) and 4), above.
- 7) There will be a requirement for registered marks that there be filing with the Registrar of data concerning the licensing agreement as prescribed by regulation. Failure to file such data will not invalidate the mark but will incur heavy penalties.

Part (c): The purpose of this provision is to ensure that all persons linked to the owner of the trade mark by being related

in part (a) or part (b) are related to one another.

The suggested provision in part (c) may sweep too widely for the purposes suggested. An alternative proposal for part (c) could be in this form:

- (c) where a person is related to the owner of a mark under paragraph (b) of this subsection, that person is related to every other person related to the owner of the mark under paragraph (b) of this subsection and is related to every person related to the owner of the trade mark under paragraph (a) of this subsection.

## 2. Impact of the New Definition

The impact of the new definition and all of the reasons for suggesting that it take the form indicated above cannot be explored in this Chapter but are explored in later Chapters. The definition has significant implications for, among other areas:

- 1) Qualifications for gaining registration of a mark: See the Chapter on Use.
- 2) Licensing: See the Chapter on Licensing and Assignment
- 3) Distinctiveness: See Chapter on Distinctiveness
- 4) "Confusion" and Infringement: See Chapter on Infringement
- 5) Parallel Importation: See Chapter on Parallel Importation

At this point, the basic submission of this Chapter should be kept in mind. That submission is that a trade mark indicates that there is a single entity which controls the use of the mark, the "source". The definition of source should be the same for all of the aspects of trade mark law. An example may illustrate the point:

1. U. Company is the registered owner of a trade mark in the United States.
2. U. Company is also the registered owner of same trade mark in Japan. U. Company has licensed J. Company to use the mark under the Japanese registration.
3. U. Company has a wholly owned Canadian subsidiary, C. Company which is the registered owner of the same trade mark in Canada.

Under the suggested definition of "trade mark" U. Company, J. Company and C. Company are all related to one another, i.e., they are all part of the same "source". This will have a number of implications, two of which are mentioned here. First, C. Company should not be able to bring an action for infringement of its Canadian trade mark rights against any person who imports products into Canada from the J. Company in Japan. Second, if the J. Company or the U. Company sell products marked with the trade mark in Canada over a period of time, such action should not result in the loss of distinctiveness of C. Company's Canadian trade mark.

## CHAPTER TWO

### CERTIFICATION MARKS

#### I. Current Law

##### A. Introduction

The statute provides that certification marks are marks used to distinguish wares or services of a defined standard from wares or services that are not of that standard.<sup>1</sup> There is considerable doubt that such marks could be protected at common law as marks which were indicative of qualities only and not of origin could not be protected against use by others.<sup>2</sup> The

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1. The standard may be in relation to any of the following: [Act, s. 2]

- (a) the character or quality of the wares or services,
- (b) the working conditions under which the wares have been produced or the services performed,
- (c) the class of persons by whom the wares have been produced or the services performed, or
- (d) the area within which the wares have been produced or the services performed.

2. Fox, 3rd Ed., p. 206. Fox indicates that there were suggestions that the law of unfair competition might reach far enough in the case of union labels at least, to enable one union to prevent another from using its mark. Doubt may have been cast on this point by dicta in Canadian Admiral v. Rediffusion, [1954] Ex. C.R. 382. If suggested amendments in the Chapter on Unfair Competition to s. 7 of the Act concerning "misleading sponsorship" are adopted, such marks might be protected against use by unauthorized persons whether they are registered or not.

Following parts of this section examine the problems that have arisen in relation to the current certification mark provisions.

## B. Problems with Current Law

### 1. Standards Filed

When a certification mark is registered, the owner must file particulars of the defined standard.<sup>3</sup> If a particular filed standard falls within the definition of "certification mark" in s. 2 of the Act, it would appear that the Registrar has no authority to reject an application for registration based on his judgment as to the inadequacy or inappropriateness of the standard.

The standards which are presently filed with the Registrar are often very general.<sup>4</sup> Such filed standards would be of no assistance to a consumer interested in determining the specific qualities of products distributed in association with the marks.

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5. Act, s. 29(f).

Two examples of standards actually filed for two particular marks:

A. For a variety of goods and services:

"... standards of quality laid down by the owner of the certification mark, according to specifications prescribed by the owner and subject to directions given by the owner from time to time."

B. For foods and beverages:

"That such services are performed by licensees of the applicant and are performed in whole or in part using equipment and recipes and methods of preparation and service approved by the applicant and which services are subject to inspection by the applicant to ensure the maintenance of such standards."

## 2. Role of the Certification Mark Owner

Problems with the role of certification marks under current law are further illustrated by the use of such marks in practice. A number of such marks have been registered which are essentially nothing more than ordinary trade marks. A typical case of such a mark is the case of a 'franchisor' who wishes to be registered as the mark owner but who does not manufacture, sell, lease, hire or perform the wares or services in association with which the mark is to be used. The manufacturing, selling, etc. is to be carried on by his licensees, the 'franchisees'. It might be argued that the certification mark was the only appropriate form of registration in such a case as the functions that the franchisor performs are not included within the definition of origin in the s. 2 definition of an ordinary mark. Also the certification mark provisions indicate that the mark owner is to be one who does not manufacture, sell, etc. the products in association with which the certification mark is used.<sup>5</sup> However, in such cases the mark might be registered as a proposed trade mark provided that the applicant either accompanied his application with a registered user application or secured a registered user agreement within six months of the allowance of the proposed mark.<sup>6</sup> This shows the fundamental similarity of the certification mark and ordinary trade mark in these circumstances. Furthermore, the functions being performed by the certification mark owner in these cases appear to be that of an ordinary trade mark owner who has licensed his mark rather than the functions that it was envisioned that a certification mark owner would perform when the certification mark provisions were introduced into our legislation.

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5. Act, s. 23(1).

6. Act, ss. 29(e), 39(3), 47(2), 39(2). There may be some doubt whether such registration is proper on a strict interpretation of the current Act. See the definition of "proposed trade mark" in s. 2.

The incentive to register such marks as certification marks rather than ordinary trade marks may be that the licensing procedure in the case of certification marks can be simpler and less costly than with ordinary marks. With the ordinary marks the registered user provisions may have to be used, whereas with certification marks licensing can take place as a private agreement between the parties.<sup>7</sup> As well, by using a certification mark rather than an ordinary trade mark the mark owner may avoid running the risk of the invalidity of the registration of an ordinary trade mark through loss of distinctiveness because of improper licensing through failure to properly comply with the provisions of s. 49 of the Act. In fact, there have been cases of marks first registered as ordinary trade marks which were then improperly licensed. These marks have been re-registered as certification marks, it being claimed that the initial registration as an ordinary trade mark was in error and that the mark should have been registered as a certification mark, at least from the point of the improper licensing as an ordinary trade mark.

Another aspect of the current law on certification marks that should be examined is the requirement that the owner of a certification mark be one "who is not engaged in the manufacture, sale, leasing or hiring of wares or the performance of services such as those in association with which the certification mark is used."<sup>8</sup> [Emphasis added]. This restriction may have been introduced originally because it was thought that certification marks, envisioned as indicators of product standards, could be confused with ordinary trade marks. This might occur if the owner of a certification mark were permitted to use his mark on goods that he manufactured or sold as it would appear that he was using the mark to indicate origin. A more serious implication may have been perceived in that certification marks could be licensed, unlike ordinary trade marks. Therefore, if a mark owner could use his certification mark on his own goods, there would be an incentive for registrants to register certification marks rather than ordinary trade marks. This result may have been seen

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7. Act, s. 23(2).

8. Act, s. 23(1).

as inconsistent with the theory of "origin" for trade marks prevalent when certification marks were first adopted.

A second possible rationale for not permitting the certification mark owner to certify his own goods is that the vendor of goods and the certifying agency may have conflicting objectives. The vendor or manufacturer may have an incentive to reduce his costs through lowering the quality of his product and thereby increase his profits if he can keep his selling price up, or at least not reduce it as much as he reduced costs. One factor that might assist in keeping the price up could be to continue to apply the same certification mark to the product despite the lowering of quality. Thus, one who is both vendor of products and certification mark owner may be tempted to apply his mark to his own products even though his products do not meet the filed standard. However if a certification mark owner is restricted to the role of mark owner only, then his only interest is in the value and integrity of his mark which can be preserved only if the products sold under the mark meet the standards provided for the mark.

The rationale for extending the prohibition to anyone who produced products such as those to which the mark is applied rather than merely to the owner applying the mark to his own goods is not clear.

In practice the prohibition of a certification mark owner being one engaged in the manufacture, etc. of the products certified can be relatively easily avoided. If one person wishes to be both certification mark owner and the manufacturer of products certified, for example, he may arrange the incorporation of a separate company owned and controlled by him for the purpose of owning the certification mark.<sup>9</sup>

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9. It is possible that the courts might "pierce the corporate veil" in such circumstances and find the certification mark holding company to be the same person as the manufacturer controlling it for the purposes of the Act, s. 23(1).

### 3. Trade Marks Principles and Certification Marks

#### a) Introduction

An examination of the current Act reveals that certification marks have not been as carefully fitted into the trade marks system as they should be. The result is that certain aspects of general trade mark law that should apply fully to certification marks, such as the registration of proposed marks, expungement and infringement, may not apply as they should to certification marks.

#### b) Proposed Certification Marks

While the Registrar has accepted proposed certification marks for registration, an examination of the definition of "proposed trade mark" in s. 2 of the Act indicates that it does not include proposed certification marks. That would appear to preclude registration of proposed certification marks under the Act.<sup>10</sup>

#### c) Expungement for Lack of Distinctiveness

An important provision governing the grounds for the expungement of the registration of a trade mark<sup>11</sup> is s. 18(1)(b):

"The trade mark is not distinctive at the time proceedings bringing the validity of the registration into question are commenced."

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10. Act, ss. 16(3); 39(2), (3).

11. Including a certification mark, Act, s. 2 "trade mark", part (b).

Distinctiveness in relation to certification marks appears to have two aspects. Firstly, a certification mark should distinguish only wares or services that are of the defined standard. Secondly, a certification mark should distinguish wares or services in association with which only those licensed by the certification mark owner have used the mark.

An examination of the functioning of the present certification mark provision reveals that it is this latter aspect of distinctiveness, i.e., that the mark be used only by licensees of the registered owner that is particularly important for consumers. In fact, there is little practical difference in this respect between an ordinary trade mark and a certification mark for consumers. In the case of both types of mark the consumer is interested ultimately in the qualities of the products he receives. Given the uselessness of most filed certification mark standards as consumer information -- largely because of their generality and the consumer's lack of knowledge of their existence -- the consumer uses a certification mark much in the same way as an ordinary trade mark. The mark indicates "origin", i.e., someone who takes responsibility for placing products on the market in association with the mark. The interest of the mark owner in building the "goodwill" of his mark by ensuring that the products distributed in association with the mark meet standards acceptable to the consumer is the same for both certification marks and trade marks.

The fact that there is no real distinction between certification marks and ordinary trade marks in the function they perform for consumers should be very clear for those certification marks that are commercial marks and have been registered by those engaged in business. However, the same is true for those marks that are not commercial in that sense and are registered by unions, or other associations or organizations, non-profit or otherwise, (e.g., Canadian Standards Association, Underwriters Laboratories). The

meaning of such marks for consumers comes not from the standards filed with the Registrar, but rather from information the consumers gain through advertising, other informational techniques used by the owners of the marks, and the experience the consumer has had with the marks and the products distributed in association with them. As with the more commercial certification marks and ordinary trade marks, the essential feature for the consumer is the fact the owner of the mark controls its use in relation to products and thus indirectly the qualities of those products. If a particular certification mark has come to indicate specific and useful standards to a consumer, that is as a result of his 'education' by the mark owner and has nothing to do with the present, ineffectual standards filing provisions in the Act.

When the statutory provisions on distinctiveness were first examined by the authors of this paper, there were doubts that the provisions were adequate to provide for expungement of a certification mark which was not distinctive in either of the senses described above.<sup>12</sup> However, an analysis of the relevant statutory provisions appears to indicate that a certification mark could be expunged on either or both of the aspects of distinctiveness described above.

"Distinctive" is defined in s. 2 of the Act as follows:

"distinctive" in relation to a trade mark means a mark that actually distinguishes the wares or services in association with which it is used by its owner from the wares or services of others or is adapted so to distinguish them."

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See above, p.58.

Section 23(2) of the Act provides as follows:

"The owner of a certification mark may licence others to use the mark in association with wares or services that meet the defined standard, and the use of the mark accordingly shall be deemed to be use thereof by the owner."

Note that the definition in s. 2 of "distinctive" requires that the certification mark distinguish products in association with which it is used by its owner. The only persons using the certification mark, as "use" is defined in s. 4 of the Act, are the licensees of the mark owner. Therefore unless those using the mark are doing so as licensees under s. 23(2), their use is use by others than the mark owner which may cause the mark to become not distinctive and its registration subject to expungement. Section 23(2) deems use by licensees only of the mark owner to be use by the mark owner. Therefore, if the certification mark owner does not prevent<sup>13</sup> others who are not his licensees from using the mark even though those others applied the mark solely to wares or services of the defined standard, he runs the risk of having his mark found not distinctive and having his registration expunged. As well, use of the mark by a licensee is deemed to be use by the certification mark owner only if the licensee grants the right to use the mark in association with wares or services that meet the defined standard and if the licensee uses the mark "accordingly". Consequently, even though a certification mark owner is careful to prevent those who are not his licensees from using his mark, if he fails to go further and does not prevent his licensees from using the mark in association with wares or services that do not meet the defined standard, he also runs the risk of having his mark become not distinctive.

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13. Through his rights under s. 23(3).

## d) Infringement

Infringement of certification marks rights is defined in s. 23(3). As well, s. 22 would appear to apply to certification marks. However, s. 20 would appear not to apply to certification marks because the definition of "confusing" in s. 6 is inapplicable to certification marks.<sup>14</sup> This means that a registered certification mark owner has no specific remedy in cases where another adopts a certification mark, ordinary trade mark or trade name deceptively similar to his certification mark.<sup>15</sup>

## II. Foreign Law Compared

### A. Britain

Britain has a certification mark provision somewhat similar to that in the Canadian Act.<sup>16</sup> The British certification mark legislation differs from the Canadian in that it provides that the proposed standards for a certification mark are to be submitted for approval to the Board of Trade.<sup>17</sup> The statute sets out the criteria that the Board is to use in approving the proposed

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14. Section 19 may be applicable to certification marks. The exclusive right to use could apparently refer only to use as provided for under s. 23(2). However, it should be noted that the proviso in s. 19 does not refer to s. 25 which might be taken as implying that certification marks were not intended to be within the scope of s. 19.

15. In some such cases a remedy might be found under s. 7(d) or (e).

16. Trade Marks Act, 1938, s. 37.

17. S. 37(7).

standards and gives the Board the power to impose conditions for gaining such approval.<sup>18</sup> The Act also provides that the mark cannot be assigned without the consent of the Board.<sup>19</sup>

It has been suggested that the present English statutory definition of trade mark is so broad as to include within it most if not all marks now registered as certification marks. A remaining problem, however, is whether the trade mark owner must actually enforce the standards to come within the definition of trade mark or whether it is sufficient that he merely have the power to enforce such standards.<sup>20</sup>

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18. First Schedule to the Act, s. 1(5). The criteria are:

- a) whether the applicant is competent to certify the goods in respect of which the mark is to be registered
- b) whether the draft regulations [for licensing use of the mark] are satisfactory
- c) whether in all the circumstances, the registration applied for would be to the public advantage.

The effectiveness of this procedure can be doubted. Kerly, 19th ed., p. 161 notes that no published procedure has been set down by the Board and there is no reported case of such proceedings.

There has been little or no reported litigation in relation to certification marks which hinders the assessment of system.

Kerly indicates that there are about a dozen applications for certification marks each year.

19. S. 27(8). The Act also suggests that the regulations governing the licensing of marks include provisions for appeals to the Registrar where an applicant for a licence is refused, s. 37(7).

20. Kerly, 10th ed., p. 32.

## B. United States

The American statute also provides for certification marks similar to the Canadian mark.<sup>21</sup> A provision that does not appear in the Canadian legislation is one which provides specifically for the expungement of the registration of a certification mark. It provides that any person who believes he is or will be injured by the registration may apply<sup>22</sup> at any time on the ground that the registrant (owner):

- "1) does not control, or is not able legitimately to exercise control over, the use of such mark, or
- 2) engages in production or marketing of any goods or services to which the certification mark is applied, or
- 3) permits the use of the certification mark for purposes other than to certify, or
- 4) discriminately refuses to certify or to continue to certify the goods or services of any person who maintains the standards or conditions which such mark certifies."

## III. Recommendations

### A. Retention of Certification Marks

It is recommended that the statutory provisions governing certification marks be retained subject to the modifications recommended below.

### B. Proposed Certification Marks

It is recommended that the Act be amended to provide clear statutory authority for the registration of proposed certification marks.

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21. Lanham Act of 1946, ss. 45, 5.

22. S. 14(e).

The definition of "proposed trade mark" in s. 2 might be amended to effect the recommendation:

"proposed trade mark" means a mark that is proposed to be used by a person for the purpose of distinguishing or so as to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others; and includes a proposed certification mark which is a mark that is proposed to be used for the purpose of distinguishing or so as to distinguish wares or services that are of a defined standard and are certified by the owner of the mark to be of that defined standard with respect to

- (a) the character or quality of the wares or services,
- (b) the working conditions under which the wares have been produced or the services performed,
- (c) the class of persons by whom the wares have been produced or the services performed, or
- (d) the area within which the wares have been produced or the services performed,

from wares or services that are not of such a defined standard and are not certified by the owner of the mark to be of that defined standard.

The underlined portion is new and is taken from the definition of "certification mark" in s. 2 with the exception of some additional words explained below in the section on "Distinctiveness". 22a

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22a. See below, p. 73.

Section 39(2) of the Act might be amended as follows:

39(2) When an application for registration of a proposed trade mark is allowed, the Registrar shall give notice to the applicant accordingly and shall register the trade mark and issue a certificate of its registration upon receipt of a declaration that the applicant, his successor in title or a person approved as a registered user under subsection 49(7), or in the case of a proposed certification mark a person who is a licensee under s. 23(2) [as amended], has commenced the use of the trade mark in Canada in association with the wares or services specified in the application."

The underlined portion is new.

#### C. Licensing

For policy reasons explained in detail in the Chapter on Licensing below, it is recommended that a requirement be introduced that information as prescribed by regulation be required to be filed for each licence with the Registrar as a condition precedent to taking advantage of the licensing provision in s. 23(2). A new subsection could be introduced after s. 23(2) of the following nature:

23(2)A. For each licence entered into under subsection 23(2) the owner of the certification mark shall file with the Registrar information as is prescribed by regulations.

23(2)B. Where the information required under subsection 23(2)A is not filed with the Registrar the use of the certification mark by the licensee shall not be deemed to be use thereof by the owner.

The nature of the information to be required and the reasons for it are explained in the Chapter on

Licensing, below. The effect of the proposed s. 23(2)B in a case where a licensee used a mark under a licence for which the required information had not been filed would be that such use would be use of the mark by someone other than the registered owner of the mark and would subject the registration of the mark to the risk of being invalidated on the grounds of loss of distinctiveness.

D. Eliminating the Registration of Ordinary Trade Marks as Certification Marks

1. Introduction

A major problem with the present certification mark provisions and their administration is that many marks which are essentially ordinary trade marks are being registered as certification marks. This phenomenon is abusive of the trade marks system to the extent that such marks escape regulation which applies and should apply to ordinary trade marks by being registered as certification marks.<sup>23</sup> Further the registration of such marks as certification marks hinders the certification mark system in functioning as it was intended. Two recommendations are presented here with the objective of forcing such marks to be registered as ordinary trade marks rather than certification marks.

2. Independence of Certification Mark Owners

If the Act were amended so as to prevent a person from incorporating a separate company for the purpose of owning certification marks which are to be applied to wares or services manufactured, etc. by that person, it would prevent the registration of a number of ordinary trade marks as certification marks. Further, the genuine independence of the certification mark owner from those whose wares or services are certified is highly desirable for a properly functioning cer-

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23. The provisions governing licensing are different. There may be doubt that the concept of distinctiveness applies fully to certification marks.

tification mark system as explained above.<sup>24</sup>

It is recommended that the amended Act contain provisions of the following nature:

s. 23(1)A. certification mark may be adopted and registered only by a person who is not, and who is not related to a person who is, engaged in the manufacture, sale, leasing or hiring of wares or the performance of services such as those in association with which the certification mark is used.

23(1)A. The registration of a certification mark is invalid if the owner of the certification mark or a person related to the owner of the certification mark engages in the manufacture, sale, leasing or hiring of such wares or the performance of services such as those in association with which the certification mark is used.

23(1)B. For the purposes of this section persons are deemed to be related if they are members of a group of two or more persons at least one of which is a company, and one of which, directly or indirectly, owns, controls or receives the benefit of shares of the other persons which are companies carrying voting rights sufficient to elect a majority of the directors of such companies.<sup>25</sup>

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24. See p. 55, above.

25. Since certification marks can be held by unincorporated associations, consideration should be given to providing for such associations in this subsection. For example, after the word "company" insert "or is an unincorporated body," and after the last word "companies" insert "or one of which controls such unincorporated bodies". The concept of control in relation to unincorporated bodies may not be capable of further statutory definition, but may only be subject to case by case application depending in part on the constitution, if any, of any such body under consideration.

The underlined portions are new.

The definition of "persons related" is restricted to cases of majority share ownership to avoid including cases within the definition which would not properly be included. For example, a group of manufacturers might incorporate an association to set standards and hold a certification mark for their industry. As long as no one manufacturer controlled the association through owning a majority of the voting shares no manufacturer would be a related person to the association. Such associations, owning certification marks, provided they are not controlled by any one member are acceptable, and often highly beneficial instances of the use of certification marks.

### 3. Licence-of-Right

Owners of certification marks could be required to licence every person who wished to use their marks who was prepared to meet the defined standards. The result would be that persons who under the existing statutory provisions register, as certification marks, marks which should be registered as ordinary trade marks,<sup>26</sup> would be discouraged from registering such marks as certification marks. Certification mark owners should have no legitimate objections to such a requirement if their interest in their marks is as genuine certification marks, i.e., an interest solely in setting and monitoring standards and in preserving the integrity of their marks as indicators of those standards.

Those who might have registered their marks under the present law as certification marks but who would be unwilling to so register them under the proposed modified law because they wish to use their marks commercially as ordinary trade marks, could register them as ordinary trade marks.

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26. See p.54 , above.

The legislation should provide for an application to the Registrar or an administrative tribunal by any person desiring such a licence where the licence has been improperly refused by the mark owner.<sup>27</sup> In particular, the statute should prohibit the certification mark owner from inserting unreasonably discriminatory terms in such licences.

While such a licence-of-right provision might have some effect in preventing the unreasonable use of certification marks in an anti-competitive fashion, this is not the purpose of introducing such a provision.<sup>28</sup> It is introduced so that the legal system will work to segregate genuine certification marks from ordinary trade marks and will permit each type of mark to perform its proper function in the market place.

It is recommended that new provisions similar to the following be included in the Act:

- s. 23(2)C. The owner of a certification mark shall licence any person to use the mark in association with wares or services that meet the defined standard who requests such a licence, provided that such person agrees to use the mark only in association with wares and services that meet the defined standard, is reasonably capable of so using the mark, and agrees to such other terms as are required by the certification mark owner which may include the payment of a royalty to the certification mark owner.

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27. Whether Registrar or tribunal may depend in part on what decisions are made in relation to the administrative recommendations made in the Chapter on Procedures and Other Recommendations. There should be an appeal to the courts from any such administrative decision.
28. It is recommended in the Chapter on Unfair Competition that the regulation of the anti-competitive use of trade marks should be left to the competition legislation.

- s. 23(2)D. The terms of any licence granted by the certification mark owner under s. 23(2)C shall not be unreasonably discriminatory as compared with other licences granted by the certification mark owner whether under s. 23(2)C or otherwise under this Act.
- s. 23(2)E. A certification mark owner may terminate a licence to use the mark for failure of the licensee to comply with the terms of such licence but the certification mark owner shall not terminate any licence in an unreasonably discriminatory manner as among all licensees.
- s. 23(2)F. Any person who has requested from the owner of a certification mark a licence to use the mark as provided in subsection 23(2)C and has not received such a licence within a reasonable time, may apply to the Registrar who shall direct the certification mark owner to grant such a licence on such terms as the Registrar deems proper in the circumstances if the Registrar finds that the failure to grant such a licence was contrary to this Act.<sup>29</sup>
- s. 23(2)G. Any person whose licence to use a certification mark has been terminated contrary to this Act may apply to the Registrar who shall direct the certification mark owner to reinstate such licence on such terms as the Registrar deems proper.

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29. An appeal to the Federal Court of a Registrar's decision would lie under s. 56 of the Act.

s. 23(2)H. The Governor-in-Council may make regulations for carrying into effect the purposes and provisions of this section.<sup>30</sup>

E. Improved Standards Filed for Certification Marks

The inadequate nature of many of the standards filed for certification marks has been described above.<sup>31</sup> Given the inadequacy of the filed standards, certification marks indicate nothing more to consumers than do ordinary trade marks. Both types of marks indicate that for each mark there is one legal entity that has the exclusive right to control the use of the mark in association with wares and services and thus has the incentive to enhance the value of its mark by ensuring that it is associated with products that meet with consumer favour.

Thus the present standards filing requirement appears to contribute little or nothing to the function of certification marks in providing consumers with information about the products distributed in association with them. Consequently, serious consideration was given to recommending that all standards filing requirements be eliminated from the Act and that the definition of ordinary trade mark be amended so as to include all marks presently registrable as certification marks.

However, despite those problems inherent in any standards filing provision that were discussed in the Chapter on the Meaning of Marks,<sup>32</sup> above and despite the experience with the present statutory provisions, it is recommended that an improved standards filing requirement for certification marks be retained. There are three reasons for making this recommendation. Firstly, the statutory provisions can be improved to give the Registrar the authority to approve the compe-

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30. Regulations would be necessary to establish such matters as what is an unreasonable delay in responding to a request for a licence under the proposed 23(2)F, the proper form for a request for a licence to a mark owner, procedures for application to the Registrar under 23(2)F and G.

31. See above, p. 53.

32. See above, p. 39.

tence of an applicant to set and police standards, the appropriateness of the product standards filed and the adequacy of the testing or monitoring provisions as a prerequisite to registration. Secondly, if the other amendments<sup>33</sup> to the Act succeed in discouraging the application for registration of ordinary marks as certification marks, the volume of applications for certification mark registrations should be substantially reduced. With a smaller number of applications it should be possible to initiate a program examining the appropriateness of the defined standards. This might involve consultation with governmental agencies such as the National Research Council and private agencies where appropriate regarding certification mark applications. To the extent that such consultation results in increased costs for the Trade Marks Office, such costs can be recovered from the applicants as increased application fees.

Certification marks under the current legislative system have not had a fair test as instruments for improving the information provided to consumers concerning the goods and services they purchase. Under the proposed legislative scheme certification marks with the standards filing requirements may come to play a useful role in the consumer information system. Therefore, before a decision is made to abandon standards filing for certification marks, the scheme recommended here should be adopted and used for a few years and then assessed in order to determine if it is successful.

It is recommended that provisions something like the following be introduced into the Act:

- s. 23(1)C. (1) Subject to section 12, a certification mark is registrable if the Registrar is satisfied that the applicant is competent to establish the defined standard and to certify the wares or services in respect of which the mark is to be registered, that the defined standard

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33. See above, p.66.

is satisfactory, that the provisions for testing that the wares or services are of the defined standard are satisfactory, and that allowing the registration applied for would be to the public benefit.<sup>34</sup>

- s. 23(1)C. (2) The Governor-in-Council may make regulations establishing requirements for the registrability of certification marks.<sup>35</sup>

The underlined portions are new.

#### F. Distinctiveness

As was indicated above,<sup>36</sup> there may be some doubts as to the application of the concept of distinctiveness to certification marks. Distinctiveness as developed under the common law and as applied to ordinary trade marks under the Act would not be applicable to certification marks. Under common law and statute for ordinary marks the concept refers to distinguishing as to origin with no reference to distinguishing as to defined standards. As noted above, certification marks should be required to be distinctive as to both origin and the defined standard. In other words, to be distinctive the certification mark should not only distinguish products that are of the defined standard, but also distinguish products that are certified to be of that standard by the owner of the certification mark. Since the concept of distinctiveness in the Act is in part defined for certification marks by reference to the function that such marks are to perform as set out in the definition of "certification mark" in s. 2 of the Act, it is recommended that the definition of "certification mark"

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34. See the British Act, above, p. 62.

35. A broad regulation making power would permit regulations to be made and changed from time to time as experience was acquired with the proposed provisions.

36. See above, p. 57.

be amended along the following lines:<sup>37</sup>

- s. 2 "certification mark" means a mark that is used for the purpose of distinguishing or so as to distinguish wares or services that are of a defined standard, and are certified to be of that standard by the owner of the mark, with respect to ...  
[parts (a) to (d)]

from wares or services that are not of such a defined standard and are not certified to be of that standard by the owner of the mark.

Underlined portions are new.

These modifications to the definition stress that it is the function of the certification mark owner and not his licensees to ensure that the wares or services are of the defined standard and to certify them to be of that standard.

## G. Infringement

### 1. Current Law

The following is a summary of the current statutory provisions which deal with infringement of certification mark rights:

#### a) s. 23(2)

The first part of this subsection deals with use [presumably as defined in s. 4] by an unlicensed person. It is not clear whether this would encompass only use as a certification mark or whether it would include use as a trade mark

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37. This amendment is recommended to introduce greater certainty into the Act on this point, despite the analysis above at p. 59 which suggests that distinctiveness in both senses is applicable to certification marks under the Act as presently drafted.

or trade name as well. Further, it is not clear whether use only in association with the wares or services for which the mark is registered is covered or whether use in association with all wares or services is within the scope of this provision. Extension to all wares and services would be wrong in principle as such use should be within the definition of infringement only in cases in which such use causes deception or confusion of the public.

The second part of 23(2) covers use [again, as defined in s. 4] "in association with any wares or services in respect of which such mark is registered but to which the licence does not extend." Presumably this implies use by a licensee only. Firstly, this portion of the subsection would apparently cover use by a licensee on wares or services to which his licence did not extend in a case where the licensee received a licence for some of the wares or services for which the mark was registered but not all such wares or services. This use would be covered even though such wares or services in fact complied with the defined standard. Secondly, this portion of the subsection would apparently apply to use by a licensee on the category of wares or services to which his licence extended but which were not of the defined standard and therefore could be described as wares or services "to which the licence does not extend".

b) s. 19

This section would appear to prohibit use [see s. 4] by any unlicensed person as a certification mark in association with the wares or services in respect of which the mark is registered.<sup>38</sup>

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38. For the basis of this interpretation see the discussion of s. 19 in the Chapter on Infringement, p. 123. But see also the comments above, p. 74.

c) s. 20

This section would not appear to be applicable to certification marks as the definition of confusion in s. 6 of the Act is inapplicable to certification marks.

d) s. 22

This provision would apply to certification marks. However, note the discussion of s. 22 in the Chapter on Infringement.<sup>39</sup>

2. Recommendations

The following practices should fall within the definition of infringement of certification mark rights:

a) Use<sup>40</sup> by an unlicensed person of the certification mark itself as a certification mark on the wares or services in respect of which the mark is registered.

b) Use by a licensee in association with wares or services to which his licence does not extend either in the sense that he is not licensed for that class of wares or services or in the sense that the wares or services are not of the defined standard.

c) Use of the mark itself as a trade mark or trade name in association with any wares or services or as a certification mark in association with wares or services in respect of which the mark is not registered so as to cause "confusion".<sup>41</sup>

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39. Below, p. 130.

40. See the Chapter on Infringement at p. for a discussion of the appropriate definition of use in relation to infringement.

41. The definition of confusion is presented below, p. 78.

d) Use of another similar mark as a certification mark, trade mark or trade name in association with any wares or services so as to cause confusion.

Section 23(3) of the Act could be deleted and replaced with provisions like these:

The right of an owner of a registered certification mark to its exclusive use is deemed to be infringed

a) by any person who is not licensed to so use the mark who uses it as a certification mark in association with the wares or services in respect of which the mark is registered, or

b) by any person who is licensed to use the mark but who uses it in association with wares or services in respect of which the mark is registered but to which his licence does not extend or which are not of the defined standard, or

c) by any person who uses the mark as a certification mark in association with wares or services in respect of which the mark is not registered or who uses the mark as a trade mark or trade name in association with any wares or services so as to cause confusion with the registered certification mark, or

d) by any person who uses another certification mark, trade mark or trade name in association with any wares or services so as to cause confusion with the registered certification mark.

It is recommended that the following subsection be introduced into s. 6 of the Act:

s. 6(4)A. The use of a trade mark, trade name or certification mark causes confusion with another certification mark if the use of both the trade mark, trade name or certification mark and the other certification mark in the same area would be likely to lead to the inference that the wares or services associated with the trade mark, certification mark or with the business carried on under the trade name are certified, manufactured, sold, leased, hired, performed, sponsored or approved by the same person or by persons related to the same person or by licensees of the same person under subsection 23(2) [as amended].<sup>42</sup>

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42. See the discussion of "confusion" in the Chapter on Infringement, p.128.

## CHAPTER THREE

### LICENSING AND ASSIGNMENT

#### I. Licensing

##### A. Current Law

Before the introduction of the Trade Marks Act in 1953, licensing of trade marks was in the view of most authorities virtually impossible.<sup>1</sup> A licence of a trade mark was said to invalidate the mark as use by the licensee of the licensor's trade mark would deceive the public into believing that products that in fact originated with the licensee, had originated with the licensor. However, in order to accommodate the increasing demand of businessmen to be able to licence their marks, the courts appeared more and more ready to find exceptions to the no-licensing rule.<sup>2</sup>

The 1953 Committee in recommending the present Act noted that the demand for the right to licence and assign marks was so great at the time that many marks were being assigned and licensed in such fashion that they might be found invalid if challenged in the courts. Further, the Committee indicated that it found that the theory of trade marks as indicators of "origin" was breaking down in contemporary business practice, and that marks were being increasingly regarded by both consumers and trade mark owners as indicators of pro-

1. Bereskin, Daniel, "Trade Mark Licensing and Registered Users in Canada", (1973) PTIC Proceedings, 366. Fox, The Canadian Law of Trade Marks and Unfair Competition, 3rd Ed., p. 277.
2. Peggy Sage Inc. et al v. Siegal Kahn Co. of Canada Ltd., (1935) Ex. C.R. 1, (1935) S.C.R. 539. The "licensee" was treated as the agent of the owner of the mark. Good Humour Corp. of America v. Good Humour Food Products Ltd. et al, (1937), Ex. C.R. 61. The "licensee" was controlled by, and a related company to the trade mark owner.

duct qualities.<sup>3</sup> This reference to origin by the 1953 Committee should be related to the view of origin presented in Chapter One of this paper. It appears accurate to say that marks generally did not indicate origin in the sense of specific, identifiable production sources. It is submitted that it was also correct to say that consumers often regarded marks as indicators of probable consistency of quality. However, as already discussed it appears that consumers do not regard marks<sup>4</sup> as indicators, for each mark, of a specific set of fixed qualities, which if changed by the mark owner would result in the invalidity of the mark or other penalties imposed in law on the mark owner.

As a result of its conclusions about the contemporary use of trade marks the Committee was prepared to recommend the present "Registered User"<sup>5</sup> provisions of the Act in order to facilitate the licensing of trade marks but at the same time safeguard the public interest by imposing certain controls. Under the Act a person other than the owner of the mark may be registered as a "registered user" and use by him in accordance with the terms of the registration is called "permitted use". Such use is deemed to have the same effect for all purposes of the Act as use by the owner of the mark. The owner and the proposed registered user of the mark must submit an application to the Registrar which discloses the relationship between the owner and the applicant user and the resulting degree of control over the permitted use. The particulars of any conditions or restrictions proposed with respect to the characteristics of the wares or services and any restrictions on the mode or place of permitted use must also be disclosed.

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3. 1953 Committee, Fox, 2nd Ed., pp. 1178-79.

4. See above, p. 4.

5. Act, s. 49.

Under the current administration of the Act, if the mark owner and registered user are "related companies",<sup>6</sup> no data need be submitted concerning any controls exercised by the owner of the mark over the qualities of products marketed by the registered user. In the case of unrelated companies the conditions concerning product qualities are most often very general. The only requirement imposed by the Registrar is that there be some provision for inspection or sampling by the mark owner of the products produced by the registered user. These latter provisions are also usually very general and there is no policing by the Registrar or the Department to ensure that such inspection provisions are actually enforced.<sup>7</sup>

On the face of the Act, the Registrar is given considerable discretionary power in deciding whether to permit registration of a registered user agreement. However, he is not given any specific

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6. Act, s. 2, 49(5). Trade Marks Rules, Form 10.

7. ECC Report, p. 187. An example of an unrelated company registered user quality control provision:

"The proposed registered user may use the said trade mark in association with the said wares within the Province of B.C., only so long as it is recorded as a registered user and only so long as the wares are produced in accordance with the written specifications, formulae, standards, directions and instructions promulgated or approved by the trade mark owner. During such time the trade mark owner or its duly authorized representative shall have the right to inspect the wares on the premises of the proposed registered user at all reasonable times and shall have the right to spot check and test any of the wares or request samples of the wares for the purpose of checking the quality thereof."

criteria to use in making his decision.<sup>8</sup> Therefore, it is difficult to establish from the Act what are the interests of the public that are envisioned as needing protection in the licensing situation, and thus what limitations the Registrar should impose.

As noted the 1953 Committee referred to marks serving as indicators of product qualities rather than indicators of source and it referred to the public interest in "the maintenance of quality, kind and type" rather than source of products.<sup>9</sup> This might lead to the impression that the Registrar was intended to review the provisions in the registered user agreements to ensure that they would provide for the maintenance of a particular product standard. In its view of trade marks as "quality indicators" in the licensing situation, the ECC may have so interpreted s. 49(7).<sup>10</sup> It may be that at least one judge has taken that view also. Noel, J. has interpreted the provision as follows:

"It therefore now appears that the whole purpose of the conditions underlying registered user provisions is that the quality of the goods would not be reduced if the marks were permitted to be used by other persons than the owner and that by so placing the accent on the characteristic of quality of the goods, if the public interest is protected, the matter of origin would not be of too much concern."<sup>11</sup>

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8. Act, s. 49(7). The Registrar may impose "any conditions or restrictions that he considers proper" and he may approve the application provided that "he is satisfied that in all the circumstances the use of the trade mark ... by the registered user would not be contrary to the public interest."
  9. 1953 Committee, Fox, p. 1178.
  10. ECC Report, pp. 186-187, 193-194, 207-208.
  11. Dubiner v. Cheerio Toys (1964), 28 Fox P.C. 15 (Ex. Ct.).

Noel, J. also indicated that he viewed the registered user provisions as an exception to the general principle that trade marks indicate origin and as such they must be strictly construed. In this light Noel, J. did not view the public interest test to be applied by the Registrar under s. 49(7) as a narrow one, limited only to the question of maintenance of product quality, but as a broad one covering any reason why the registered use would not be in the public interest, including any deception or confusion that would result other than that he saw as inevitably necessary when licensees are permitted to use a licensor's mark.<sup>12</sup>

The 1953 Committee Report and the Act can best be interpreted as showing that the concern of the Committee was not with the Registrar monitoring the quality of products to be produced by licensees (thus turning such trade marks into indicators of sets of fixed product characteristics), but rather with preserving the integrity of the indicator of "origin" role<sup>13</sup> of marks in the licensing context. The Committee did not recommend any provisions for the monitoring of product qualities in the case of assignment although that case would appear to throw up at least as serious problems for the maintenance of product quality as does licensing. After assignment of a mark there is still a single source indicated by the mark, i.e., the assignee. The Committee did recommend a specific provision to deal with cases in which, after an assignment, there might be more than one source.<sup>14</sup> Similarly, in the licensing

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12. Dubiner, p. 16.

13. "Origin" as discussed in Chapter One.

14. 1953 Committee, Fox, p. 1178. Act, s. 47(2).

situation the Committee did not refer to the problem of degradation of product quality when the mark was used by a licensee. Rather the concern was with the fact that with licensing there might be more than one "source" [the owner of the mark and/or one or more licensees] of the product, indicated by the same mark. When each such source is viewed as an independently operating user of the mark, there is a danger that each source will follow a different policy in relation to the characteristics of the products sold in association with the mark. As well, the incentive to enhance the value of the mark by associating it with products of superior quality in consumers' eyes may be greatly reduced if one source does not have the exclusive right to control the use of the mark.

The requirement in the Act of submitting data concerning the control of the licensor over the licensee and concerning any conditions imposed re product characteristics, together with the Registrar's statutory discretion in approving licences, was directed to the problem of maintaining a single source. If the mark owner controls all licensees then the licensor in a sense remains the single source of the product. Thus the issue to be decided by the Registrar under the s. 49 requirements is not whether the qualities of products produced by the licensees will change or be good or bad, but rather whether the licensor will retain sufficient control over the licensee to determine what the qualities will be. Thus the use of the mark in the hands of the licensee remains the same as in the hands of the licensor, as we have noted that when the mark owner produces or markets the product himself he is free to change the qualities of the product without it affecting the validity of the mark.<sup>15</sup> This analysis is consistent with the approach in the permitted forms of licensing that existed before the 1953 Act<sup>16</sup> and with forms of licensing

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15. See above, p. 5.

16. See above, p.79 , note 2.

permitted in the U.S. and Britain.<sup>17</sup>

It should be noted that the pre-1953 law with any later developments applies to unregistered marks. The most commonly held view appears to be that this renders unregistered marks not subject to licensing with few exceptions. There has been some debate recently whether the statutory registered users provision is the only practical way of licensing registered marks or whether some licensing is possible under the common law, particularly in the light of certain decisions in the British courts.<sup>18</sup>

## B. Foreign Law

### 1. Britain

The registered user provisions in the British Trade Marks Act, 1938 [s. 28] provided the model for the existing Canadian legislation. The scheme of the legislation is very similar to the Canadian Act appearing to focus on the maintenance of quality control by the licensor and involving a discretionary decision by the Registrar as to the adequacy of the quality control provisions in any particular licensing arrangement.

One of the more recent issues in British law has been whether the registered user provisions are the only manner in which registered trade marks can be licensed. The English courts have indicated that licensing is possible outside the registered user provisions but such licences would appear to be conditional on the licensor maintaining adequate control over the characteristics of goods marketed under the

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17. See below p. 85 for U.S. and Britain. The current policy of the Registrar in not requiring data about the quality controls imposed if there is a control relationship between licensor and licensee ("related companies") is also consistent with this approach.

18. See Bereskin, op. cit.

mark by his licensee.<sup>19</sup>

This result appears to arise from the broad definition of 'trade mark' in the English Act which requires only a "connection in the cause of trade" between the mark owner and the products on which the mark is used.<sup>20</sup> There is a sufficient connection if the mark is used by a licensee as long as the mark owner exercises adequate control over the use of the mark by the licensee.<sup>21</sup>

## 2. United States

The American legislation has no equivalent of the registered user provision. However, licensing of trade marks at common law apparently can be carried out provided that the licensing arrangement provides for quality control by the licensor and that control is exercised. Under

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19. Re Bostitch, [1963] R.P.C. 183. Re G.E., [1964] R.P.C. 418. BP v. EP [1967] R.P.C. 54. Re GE [1970] R.P.C. 339 (C.A.); [1973] R.P.C.
  20. On one analysis of the cases it might be argued that the courts might have come to the same result without the current statutory definition.
  21. As suggested in Chapter One, p. 43, there appear to be some unanswered questions as to exactly what form the licensing must take in order to be valid under this approach. Is it enough that the licensor have the power to control the licensee or must that power be exercised? What type of control is needed?

the U.S. Act<sup>22</sup> the common law approach has been adopted for marks registered under the Act. The Act would appear to require that the provisions for such control actually be carried out in order to have a proper licensing arrangement. However, at least one commentator has expressed doubts as to the extent to which the courts have enforced this requirement in practice.<sup>23</sup>

### C. Economic Council Recommendations

We have noted above<sup>24</sup> the Economic Council's criticism concerning the confusion as to the meaning and function of trade marks that was introduced by permitting licensing under the registered user provisions. The Council's recommendations for a "PM mark" for which product standards would have to be filed reflected an attempt to clarify the meaning of mark in licensing situations.<sup>25</sup> The Council

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#### 22. Lanham Act, s. 5:

"Where a registered mark or mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such manner as to deceive the public".

#### s. 45 "Related company"

The term 'related company' means any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used."

23. "Trademark Licensing: The Problem of Adequate Control", (1969) 59 T.M.R. 820. See pp. 834 ff.

24. See above, p.16.

25. ECC Report, pp. 208-209. A critique of this proposal is presented above, p. 24.

also urged that a public notice requirement be introduced into the licensing provisions<sup>26</sup> and also seemed to be critical of the uncertainty as to whether the statutory registered user provisions were mandatory or only permissive, i.e., whether there can be licensing of registered marks outside the statutory scheme.<sup>27</sup>

#### D. Recommendations

##### 1. Introduction

The purpose of the following recommendations is to make the statutory licensing provisions consistent with the concept of trade marks as set out in Chapter One.

##### 2. Licensing of Unregistered Trade Marks

It is difficult to licence unregistered trade marks without running a serious risk of invalidating the owner's rights in the trade mark.<sup>28</sup> If the proposed amendments to the statutory provisions for the licensing of registered trade marks are accepted, it would be logically consistent to extend the right to licence to unregistered marks. Once the requirement to register the licence and to have the Registrar's approval of the licence are eliminated, there appear to be no sound reasons to restrict licensing to registered trade marks. The important feature for the protection of consumers, the maintenance of control by the licensor over the use of the mark by the licensee, can be also required as a condition for the validity of the licensing of an unregistered mark. Furthermore, the current law which invalidates trade mark rights in cases of improper licensing may harm the consumer interest in some cases. If in a particular case the trade mark rights for an unregistered mark are invalidated

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26. ECC Report, p. 193.

27. ECC Report, p. 185.

28. See above, p.79.

for improper licensing,<sup>29</sup> this may mean that others are permitted to apply the same mark to their products. Such circumstances could result in considerable confusion of consumers as to manufacturer or distributor responsibility for those products in the market place, if in fact consumers continue to associate the mark with the former, single source.<sup>30</sup>

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29. As noted, the 1953 Committee found mark owners were licensing their marks extensively prior to the enactment of the present statute despite the dangers of invalidity.

30. It might be possible under current law for a mark to be invalidated in a case where a mark owner permitted another to use the mark but only under the most stringent control over the character and quality of the products. If the courts ruled the mark was invalidated in such a case this would permit use by others without the consent or control of the original mark owner. The use by the owner and his licensee may not have been such as to lead consumers to believe there had been more than one "source" for the products. This may be likely in many mass-distribution situations as the consumer is often remote from the physical source of the goods and is likely to assume that all products of the same class, bearing the same mark, which he encounters only at the retail level, came from the same production or distribution source. When others than that one source begin to use the mark there will be consumer deception. In such a situation the goods from the several "sources" are less likely to be of a consistent or uniform quality than when they came from a single "source".

But see: Bereskin, op. cit., p. 374, who suggests that a mark will not be held invalid if a licensee indicates that the goods have been produced under the authority of the mark owner.

Note that the introduction of licensing for unregistered marks is not really a radical departure as there already appears to be a limited ability to license unregistered marks under the existing law.<sup>31</sup> Further, licensing of such marks is permitted under the U.S. law and is apparently permissible under British law in the light of the court decisions referred to above.

Another argument that can be presented for permitting licensing of unregistered marks is that not permitting such licensing is unreasonable for the smaller businessman who might not have either the resources or the knowledge to register his mark.<sup>32</sup>

The owner of an unregistered mark should only be able to license others to use trade mark rights which he possesses. Therefore, the owner of an unregistered mark should be permitted to license his mark in relation to those wares and services for which his mark is in fact distinctive.

To give effect to the above recommendation it is recommended that a provision of the following nature be introduced into the Act:

s. 49(1)A(1).

A person other than the owner of an unregistered trade mark may be licensed to use such trade mark by the owner, and such a person is deemed always to have been permitted to be so licensed to use such a trade mark, for the goods

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31. See above, p. 79.

32. The argument is not very persuasive in that any mark owner considering licensing is likely to be sufficiently sophisticated and substantial to retain legal counsel who would advise him as to registration.

or services for which such trade mark is distinctive, provided that the provisions of such a licensing agreement and the performance of the licensing agreement throughout its existence, comply with the requirements of this Section.<sup>33</sup>

s. 49(1)A(2).

For the purposes of subsection 49(1)A(1), "distinctive" in relation to a trade mark means a trade mark that actually distinguishes the goods or services in association with which it is used by its owner from the goods or services of others.

### 3. Control by the Licensor

#### a) Introduction

The problem in the licensing situation is to ensure that the licensor remains the sole "source" of the products distributed in association with the mark. Difficulties may arise for the consumer interest in marks because the licensee may be using his mark at the same time as the owner and/or other licensees. The licensor may not exercise adequate control over the licensees with the result that the same mark is being applied to products with different characteristics. [This was the problem that concerned the 1953 Committee] In the non-licensing situation the owner remains the source -- the only person interested in the value (goodwill) of the mark, thus with the maximum possible incentive to protect and promote its value. In the licensing situation, both licensor and licensee have an interest in the value of the mark. The fact that each shares his interest with another may in itself tend to reduce the incentive for each to preserve the value of the mark compared

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33. Other amendments proposed for Section 49 are set out below, p. 100.

with the non-licensing situation. Further, the interest of the licensee will tend to be shorter term and that of the licensor will tend to be longer term. Without proper controls the two may tend to work at cross-purposes to the detriment of the public and the value of the mark. The larger the number of licensees, the more acute these problems may become.

It should be noted that where the mark is used exclusively by the mark owner on his own goods, many of the same problems arise. The mark owner can change the characteristics of goods sold under the mark and sell different goods under the same mark in the same market but he suffers no legal consequences.<sup>34</sup> Thus it might be argued that it would be illogical to single out the licensing situation for special treatment. However, the value of a mark as a marketing tool used in such a fashion would be seriously affected. Having the exclusive right to use his mark, the mark owner has an incentive not to so use his mark and so destroy its value. This same incentive does not exist inherently in the licensing situation as noted above.

Further, it could be argued that the trade mark owner, retaining an ownership interest in the mark at least in the form of a right of reversion when the licence has terminated, has an inherent interest in preserving and enhancing the value of the mark. As well, at the point at which the licence is entered into the owner has the power to dictate the terms of the licence to ensure that he has adequate control over the licensee to protect his interests. It might be argued that such inherent power is enough to make the licensor the 'source' during the entire period of the licence. Therefore no special regulation of licensing is needed to protect the public interest.

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34. That is, the validity of his mark will not be threatened.

The argument above is not accepted here as the existence of such inherent power alone, without the assurance that it will be exercised,<sup>35</sup> is not sufficient to preserve the integrity of the trade marks system.

b) Suggested Statutory Control Requirements

In order to ensure that the licensor/mark-owner remain the source in the licensing situation it should be required first, that the licensing agreement specifically provide for the necessary power for the licensor.<sup>36</sup> However, the legislation should also require that such control actually be exercised in order to preserve the validity of a licensing agreement as in any given case such control might not be exercised.<sup>37</sup>

Such control might not in fact be exercised where the licensee has greater bargaining power than the licensor, - e.g., where the licensor needs the licensee's capital, distribution network or other resources to exploit a particular market more than the licensee needs the trade mark. As well, if there are many licensees, the licensor may feel it is too

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35. Reasons why such power may not be exercised are noted below, p. 93.

36. This is the case with the present registered user provisions, Act, s. 49(5). Such provisions are unnecessary in the "related companies" [Act, s. 2] case because of the actual control inherent in such a relationship.

37. The requirement that the control be exercised is in our present legislation ss. 49(2)(3), which provide that use of the licensed mark by the licensee will be deemed use by the licensor [thus avoiding loss of distinctiveness problems] if the use is "in accordance with the terms of his [the licensee's] registration ...".

costly and troublesome to effectively police them all.<sup>38</sup> It was noted above that the licensee's interest in the mark tends to be shorter term which may lead to a temptation to exploit it for short run profits, ignoring the long run destruction of the trade mark's value. In such a situation the licensor must be alert to his interests and must have the bargaining power to actually police the use of the mark. Therefore, the spur of the threat of the invalidity of the mark is needed to force trade mark owners to actually control the use of their marks by their licensees.

### c) Specific Control Requirements

As noted the U.S. legislation and the recent line of cases under the British Act both use the approach to licensing presented here. However, in both those countries the legislation itself does not specify the nature of the control needed in order to constitute a valid licence. One of the reasons given above<sup>39</sup> for not recommending the adoption of the British definition of "trade mark" was that it provides no guidance as to the control requirements necessary for valid licensing under it.

In the legislative proposals presented here, it seemed desirable to define as far as possible the nature of the control provisions necessary, in the legislation. As well, it is proposed to leave scope for further defining the requirements in regulations on the basis of experience gained with the provisions. It is difficult to be precise about the nature of the controls necessary as they will vary with type of product and the particular situation of the licensee. However, there would appear to be three basic requirements applicable to every

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38. See (1969) 59 T.M.R. at p. 834, note 84.

39. See above, p. 43.

licensing situation:

- 1) Provisions governing the required nature or characteristics of the goods or services.<sup>40</sup>
- 2) Provisions for product testing by the licensor or an independent agency. As well, there may be provisions for inspection of the licensee's premises and operations. Evidence of such testing would appear to be essential to show that the control was being exercised.
- 3) Provisions for promptly remedying failure by the licensee to meet the

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40. The licensor should not be expected to specify all of the characteristics of the product. Depending on the nature of the product, the most important characteristics for consumers should be specified. Specifications may depend, in part, on whether the licensor or other licensees have previously used the mark and whether consumers tend to identify the mark with certain qualities. Some marks may purport to refer to some particular aspect of a product, e.g., a special ingredient in a food product.

prescribed standards, and for prompt termination of the licence should such remedies not be effected.<sup>41</sup>

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41. See generally, (1969) 59 T.M.R. 820 and particularly p. 846. Under U.S. common law and statute the courts have found the following factors, among others, to be relevant to the adequate control question.

The licensor prescribes or requires:

- a) qualities and/or source of raw materials, or supplies raw materials, e.g., soft drink syrup;
- b) product formulae, manufacturing methods and/or production equipment;
- c) periodic product testing under licensor's supervision;
- d) periodic inspection of licensee's premises, or constant presence of inspector under licensor's supervision;
- e) trade mark licence linked to a patent licence;
- f) licence for sale only of product which licensor manufactures;
- g) licensee's personnel are trained by licensor;
- h) licensee must guarantee product to consumers according to licensor's specifications, e.g., "money refunded if not satisfied";
- i) licensee must provide servicing for products sold as prescribed by licensor.

#### 4) Role of the Registrar and Registration of Licences

Under the present Act the Registrar has extensive power to approve or disapprove of registered user applications on the basis of the "public interest" involved.<sup>42</sup> Given the volume of registered user applications and the complexity of the facts and issues in many licensing situations the Registrar cannot be expected to exercise any meaningful supervision over licensing. Experience with the present statutory provisions clearly demonstrates this fact. Therefore, it is proposed that the Registrar's discretionary power to approve of licences be eliminated from the Act.

Once the requirement to have the Registrar's approval of the licence is removed, then it appears that the most important reason for requiring the registration of licences also disappears. As well, such registration is not necessary to permit trade marks to fulfill their function for consumers in giving information about products. The data filed with the Registrar under the present registration requirement is rarely, if ever, of any value to consumers as product information. Reasons why such requirements do not appear to be capable of functioning as effective consumer information instruments are discussed above.<sup>43</sup>

However, as the register is useful as an indicator of the "state of title" for registered trade marks, it would be desirable to encourage registration of notices of the existence of interests in registered trade marks. Consequently, it is suggested that a provision be introduced into the Act providing priority for

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42. Act, ss. 47(7), (12).

43. See above, p. 25.

the owners of first registered interests as licensees over later registered interests even though the latter were first acquired from the owner.<sup>44</sup>

#### 5) Related Companies

Under the present Act a licence between two "related companies" must comply with the requirements of s. 49. However, under the regulations the Act is so administered that for such a licence the parties need file only what amounts to a statement that the licensor and licensee are related companies.<sup>45</sup> The reasons why use by a related company falls within the function of a trade mark are discussed above.<sup>46</sup> Consequently, it is recommended that a section be introduced into the Act which will deem use by "persons related" under part (a) of the suggested definition of "trade mark"<sup>47</sup> to be use by the owner of the mark.

It should be noted that there is no recommendation made here that in order to gain the benefit of the suggested deemed use provision, there must be actual control exercised by the company which is the owner of the mark over the use of the mark by the other related company. It is submitted that the control inherent in majority voting control is sufficient for trade mark purposes. The ordinary incentive of the mark-owner company to preserve

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44. See the Patent Act, s. 53(4).

45. Act, s. 2, "related companies". Regulations, Form 10, Instructions, [d]. ECC Report, p. 187.

46. See p. 47, Ch. I.

47. See p. 46, Ch. I.

and enhance the value of the mark is present and the power to control the licensee's use is present in the ownership relations.<sup>48</sup>

#### 6. Loss of Distinctiveness

Under the present Act if licensing is not carried out properly, the use of the mark by the licensee will not be deemed to be use by the owner of the mark. This will raise the problem of the loss of distinctiveness and consequent invalidity of the registration of the mark and perhaps the mark itself. This approach should continue under the proposed amended legislation.

The present legislation also specifically provides for cancellation of the registration of a registered user agreement if the registered user has used the trade mark "... in such a way as to cause, or be likely to cause, deception or

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48. The statement in the text greatly over-simplifies the related company case. It may be the case that the licensee company controls the licensor company or that both are controlled by some third company. Such relationships can be extremely complex. The essential point is that in such cases there is some entity or interested group that ultimately controls the entire group of related companies. That entity has an interest in promoting and preserving the value of all of the assets of all of the related companies, including the trade marks. Thus, the potentially opposing interests of the licensor and licensee are not present in these situations.

The American courts may require actual control in these cases. (1969) 59 T.M.R. at 828.

confusion, ..."49. Since there are no registered user registrations under the proposed provisions for the Act, there would be no scope for such cancellations. The misuse described in this provision of the existing Act may go no further than use not according to the licence as required under the proposed legislation. However, to the extent that such a provision may provide greater protection for the public interest, consideration should be given to retaining it. A section in the new Act could provide that any use of a licensed mark by a licensee which caused or was likely to cause deception or confusion was not deemed to be use by the licensor.

## 7. Suggested Statutory Provisions

To implement the recommendations in the above sections on Control by the Licensor, Role of the Registrar and Loss of Distinctiveness we suggest the following:

49(1) A person other than the owner of a  
(new) registered trade mark, may be licensed to use such trade mark by the owner, and such person is deemed always to have been permitted to be so licensed to use the mark, for all or any of the wares or services for which it is registered, provided that provisions of the licence and the performance of the licence throughout its existence comply with this section.

49(2) Any licence under subsection 1 of this section shall,

a) provide for effective control by the licensor over the licensee with respect to,

i) the manner of use of the trade mark by the licensee, and

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49. Act, s. 49(10)(c)(i).

ii) the nature, character and quality of the wares or services in association with which the mark is used by the licensee, and

b) require the licensor effectively to monitor, to test and to observe the manner of use of the mark by the licensee and the nature, character and quality of the wares or services in association with which the mark is used by the licensee to ensure that such manner of use and that such wares or services are of the nature, character and quality prescribed by the licensor.

49(3) Any licence under subsection 1 shall be  
(new) performed by all parties to it according to the requirements of subsection 2, and shall be performed throughout its existence by all parties to it so that the licensor has effective control over the manner of use of the mark by the licensee and effective control over the nature, character and quality of the wares or services in association with which the mark is used by the licensee.

49(4) The Governor in Council may make regu-  
(new) lations for prescribing the requirements for a licence of a trade mark under subsection 2.

49(5) Similar to present 49(4). Should the  
(new) right to sue be extended to the licensees of unregistered marks?

49(6) Nothing in this section prevents a trade  
(new) mark from being held not to be distinctive if a person other than the owner of a trade mark uses such trade mark

otherwise than as permitted by this Act.

49(7) Without limiting the generality of  
(new) subsection (6) a licence of a trade  
mark is invalid, and use by any  
licensee under such licence is not  
use by the owner, if such licence  
causes, or is likely to cause, decep-  
tion or confusion.

In section 4:

s. 4A(1) Use of a trade mark by a person  
related to a trade mark owner shall  
be deemed to be use by the trade mark  
owner and to have the same effect for  
all purposes of this Act as use of the  
trade mark by the owner of the trade  
mark.

Note: This provision refers to use by both  
types of persons related in the proposed  
definition in Chapter One, i.e., related  
companies and licensees under s. 49.

New sections should be drafted to replace  
the present 49(8) and (9). The sections should  
authorize the registration of licences for regis-  
tered marks and the amendment or removal of such  
registrations. The details of procedure should be  
relegated to the regulations. Section 49(11) as  
presently constituted should be retained.

#### 8. Public Notices of Licensing

In the section on Assignment below,<sup>50</sup> there  
is a proposal made that on assignment of a trade  
mark, the assignee could attach notices to his pro-  
ducts to indicate to the public that there had  
been an assignment of the mark. The effect of using

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50. See p. 110.

such a notice under the proposed law would be to result in the mark being deemed distinctive of the assignee.

Consideration was given to making that notice/deemed-distinctiveness provision applicable to licensing as well. However, it is recommended that such a provision not apply to licensing. The purpose of the proposed notices on assignment is to indicate to the consumer that while he may still rely upon the trade mark as indicating that there is a single legal entity responsible for the use of the trade mark in the market place, that single legal entity is now a different entity than from before. The basic problem in the licensing situation is that there may be more than one legal entity responsible for the use of the trade mark. The proper regulation of the licensing situation requires therefore, that there be a provision which will ensure that there will be only one legal entity with ultimate control over the use of the mark. This is done in the proposed legislation by requiring that the licensing agreement provide for control by the licensor over the licensee and by requiring that the control be exercised.

If we were to permit deemed distinctiveness through the use of the suggested notices in the licensing situation, we might be providing a means for legitimizing licensing situations in which there was no centralized control. In cases where there is only one licensee selling into the particular market and the trade mark owner ceases to sell into that market, the situation is closely analogous to the assignment case. It could be argued in such cases that the consumer is adequately protected if he has notice that it is the licensee who is selling into the particular market and not the trade mark owner. However, in cases where both the licensor and the licensee sell into the same market and in cases where there is more than one licensee and they sell into the same market, the

consumer is not adequately protected by the proposed notices on the packages. In these latter situations we cannot be assured that the multiple licensing will not destroy the incentive to preserve and promote the value of the mark, inherent in having a single legal entity with the exclusive right to use the mark.

The spur which will force the licensor and licensee to carry out the proposed required control provisions is that if they fail to do so, the use of the mark by the licensee will not be deemed to be use by the licensor which will raise the possibility of the invalidity of the mark and its registration. The licensor and licensee should not be able to avoid that possibility simply by placing notices on the products or packages. In the licensing situation the consumer does not need a notice of a changed source since as long as the licensor exercises control over the use of the mark, the source has not changed.

#### 9. Inadequate Control: Burden of Proof

The disposition of the burden of proof in legal proceedings on the issue of exercise of control is critical to policing of the control requirement.<sup>50a</sup> Under the Act the burden of proving adequate control might fall as follows: (1) on registration where the applicant relies on use by a licensee to qualify for registration, on the applicant; (2) in an opposition to registration relying on use by a licensee, on the opposer; (3) where loss of distinctiveness and invalidity of a mark registration are alleged, as a defence to an infringement action or in an application to expunge a registration, on the party alleging the loss of distinctiveness through the improper licensing. A burden resting on a party other than the licensor will be particularly difficult to discharge because the facts which would show improper licensing are known to the

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50a. (1969) 59 T.M.R., pp. 843-845, 847.

licensor but may not be readily known to anyone else.

Since attempts to expunge registrations for lack of distinctiveness are particularly important in policing the functioning of the proposed licensing system, careful consideration must be given to ensuring that the burden of proof placed on those alleging improper licensing is not unreasonable. However, mark owners must not be exposed to harrassing suits based on groundless allegations of improper licensing. The proposal made below<sup>50b</sup> to require the public filing of data concerning licensing is particularly important here. If, even with filing of such data, the burden of proof is unreasonably great, consideration must be given to facilitating access to the necessary evidence or to shifting the burden of proof to the licensor in proper circumstances.

## II. Assignment

### A. Current Canadian Law

Before the 1953 legislation a mark could not be assigned without the business in association with which the mark was used. Such an assignment is said to be one with the "goodwill" associated with the mark. The theory of such a requirement was that a mark indicated "origin", i.e., the business in association with which it was used. Therefore, if the origin were assigned along with the mark the origin indicated by the mark would remain the same after the assignment as before and there would be no deception of the public.<sup>51</sup>

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<sup>50b</sup>. See p.115.

<sup>51</sup>. There were some marks that were viewed as unassignable even with the goodwill. For example, if a mark indicated goods from a particular artisan or geographic location. Use of such a mark by an assignee was said to be deceptive of the public.

The 1953 Committee viewed this law as being unduly restrictive and out of touch with contemporary business practices. To possible objections that unrestricted assignment might lead to the mark being applied to products with different qualities when used by the assignee, they pointed out that the existing law did not guarantee that those responsible for the quality of products would not change, as the management and ownership of companies could change without any assignment of the companies' trade marks. The Committee concluded that once they had conceded that the assignment rules should be liberalized, there was no logical place to halt short of completely free assignability.

Under the present Act both registered and unregistered marks are assignable with or without the goodwill of the business. It is not necessary to register either the transfer of an unregistered mark nor the transfer of a registered mark. The Act provides that nothing in the provision authorizing assignment is to prevent a mark from being held not distinctive<sup>52</sup> if as a result of an assignment there "... subsisted rights in two or more persons to the use of confusing trade marks and such rights were exercised by such persons."<sup>53</sup> The concern of the 1953 Committee<sup>54</sup> in recommending the adoption of this provision appears to have been directed to the preservation of the basic function of a trade mark in the assignment context. That function as noted above is to indicate to consumers that there is a single legal entity responsible for the use of the mark.

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52. Thus, it would be subject to expungement of its registration and to losing protection for exclusive use under s. 7 or the common law.

53. Act, s. 47(2).

54. Fox, 2nd Ed., p. 1178.

Section 47(2) would appear to provide for possible loss of distinctiveness in a case where there was more than one legal entity which used the same or a confusing mark as a result of an assignment.<sup>55</sup> Thus the essential feature for the consumer interest in marks, that one legal entity has the right to use a mark and therefore the incentive to promote and preserve the value of the mark, remains after an assignment. There may be a different "source" after an assignment but there is still only one source.

There has been an important gloss put on the law as set out in the statute by the Wilkinson<sup>56</sup> case. That case introduced a public notice requirement for assignments of marks without goodwill. The mere use of a mark by an assignee on his goods may not be enough to make the mark 'distinctive' of the assignee's goods. Therefore, failure of the assignee to educate the public as to the new ownership of the mark is said to invalidate its registration for lack of distinctiveness under s. 18(1)(b). The exact nature of the notice requirement has not been delineated by the courts as of yet. There appears to be a need for more specific guidance to mark owners and users, as to when and how the public notice requirement applies.

The Act does not abolish the common law form of assignment with goodwill. That form continues to exist together with the statutory form. There are few restrictions on the transfer of a mark if it is done with goodwill attached. There is for example,

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55. The subsection would apparently cover cases where a mark was assigned to one person for certain wares and at the same time to another for other wares. Also, an attempt to assign the mark for the same wares but for different geographic areas of Canada would apparently be included within the section. In any such case the mark would have to become not distinctive in fact to be affected.
56. Wilkinson Sword Canada Limited v. Juda, [1966] 51 C.P.R. 55. See also, Magder v. Breck's Sporting Goods Co. Ltd. (1973), 10 C.P.R. (2d) 28 (Fed. C.A.)

apparently no requirement that the public be notified that such an assignment has taken place.<sup>57</sup>

## B. Foreign Law

### 1. Britain

The British common law provides for assignments with goodwill and the British Act provides for assignments without goodwill.<sup>58</sup> The British legislation differs from the Canadian Act on two points. First, the extension of the right of assigning marks permitting assignment without goodwill extends only to registered trade marks.<sup>59</sup> Second, the British Act provides expressly for a public notice requirement in situations where a mark is assigned apart from goodwill. In such situations the assignee must apply to the Registrar for directions with respect to the advertisement of the assignment.<sup>60</sup>

### 2. United States

In the United States the law permits assignment of marks in association with the goodwill symbolized by the trade mark. The American law defines "goodwill" somewhat differently than the Canadian law which appears to bring the American position closer to that prevailing under the Canadian Act than that under the Canadian common law.

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57. See however, note 51, above.

58. Trade Marks Act, 1938, s. 22(1).

59. There is a limited exception in s. 22(3).

60. Trade Marks Act, 1938, s. 22(7).

## C. Economic Council Recommendations

The only recommendation that the ECC made concerning assignment was that the Wilkinson doctrine concerning public notice of assignment of registered marks be made statutory in order to clarify the rule and gain greater compliance.<sup>61</sup>

## D. Recommendations

### 1. Introduction

Assignment of marks might be viewed as inconsistent with the view of the function and meaning of marks presented in Chapter One. A mark indicates that a particular legal entity is responsible for the use of the mark. An assignment means there has been a change in the identity of that entity. However, it should be recalled that frequently, consumers do not know the identity of the source and that where the owner of the mark is a corporation, many changes can take place in the ownership and control of that corporation without affecting in law the status of the ownership of a mark. The critical feature for the protection of the consumer interest is that there be only one "source" in relation to a mark at any one time. This is achieved under the existing law governing assignment. Furthermore, there is a great demand among mark owners to have a relatively free hand in assigning marks. In an effectively functioning competitive system, this freedom should be used ultimately to serve consumers better. Consequently, no major changes are recommended in the law on assignment. However some amendments appear to be in order.

### 2. Loss of Distinctiveness

In the light of the sweeping language in s. 47(1) it might have been thought that a mark could not become non-distinctive merely as a result of the use of the transferred mark by the

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61. ECC Report, p. 213.

transferee. However, the courts have found otherwise. It is submitted that this finding is the proper one in the public interest. However, it would be wise to make the position arrived at by the courts clearer in the statute. Amendments of the following nature could be introduced into the statute to achieve this recommendation:

47(1) [adding these words to the end of the subsection]  
... used, provided that nothing in this subsection prevents a trade mark from being held not to be distinctive from such a transfer.

[Underlined part is new.]

Subsection (2) might then also be amended:

47(2) Not so as to limit the generality of the proviso in subsection (1), nothing in subsection (1) prevents ... .

[Underlined part is new.]

### 3. Notice to the Public

When there is an assignment, there is a change in the legal entity responsible for the characteristics of the goods or services in association with which the mark is used. While there are many changes<sup>62</sup> that may take place that may similarly affect the characteristics of the goods and services without affecting the ownership of the mark, the possibility of changes in product qualities appears to be greater in the case of assignment. Consequently, the consumer should have notice of the change of mark ownership so that he may at least be alert for possible changes in product qualities resulting from the assignment.

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62. Licensing, various changes in company management, or simply a decision by the mark owner to change the characteristics of the products.

The trade mark owner is entitled to clearer direction as to the form public notice must take than exists under the present law. Such clearer direction would also ensure preservation of the consumer interest involved.

It is proposed here that a new subsection be introduced into s. 47 which would permit the enacting of regulations to prescribe a form of public notice, the use of which would prevent the mark in question from becoming not distinctive merely as a result of the assignment and the use of the mark by the assignee. It is envisioned that the regulations would prescribe a notice to be used on the goods, the packages or in some other manner brought to the notice of the purchaser at the time of purchase. The period during which such notices must be used should be prescribed definitely in the regulations or some means of determining the appropriate period in each case would be prescribed. The period during which such notices should be used would vary with the type of product and the typical frequency and timing of its purchase. For example, the period for use of a notice for a product usually purchased at least once a month by consumers would be shorter than the period for a product typically purchased annually or only at a particular time of year. One approach could be to prescribe a minimum period in all cases and require application to the Registrar for an order confirming that the minimum period is adequate or directing a specific, longer period. Another approach could be to prescribe different periods for classes of products with or without the requirement to apply to the Registrar for an order.

A suggested form of the statutory amendment follows:

s. 47(4) The transfer of a trade mark shall not result in a trade mark being found to be not distinctive of the goods or

services of the transferee merely as a result of the use of the mark by the transferee or by persons related to the transferee, if the transferee of the mark or persons related to him have used public notices of the transfer as prescribed by regulations.

Suggested amendments to the Rules could be along the following lines:

1. Use with Goods

At the time property in or possession of goods is transferred the prescribed notices shall be marked on the goods themselves, on the packages in which they are distributed or in some other manner so associated with the goods that notice of the notice is then given to the person to whom the property or possession is transferred.

2. Use with Services

The prescribed notice shall be used or displayed in the performance of or in all advertising of such services.

Note: Services present more problems than do goods. Should the notice be required in all advertising for a period, in a certain minimum amount of advertising for a period or both? Should the Rules prescribe what would amount to adequate display in the performance of the services, e.g., size and position of the notice? Some prescribed minima are necessary to ensure adequate notice.

### 3. Period of Notice

a) The prescribed notice shall be used from the time of the transfer of the mark and for a minimum period of six months thereafter.

b) The transferee shall apply to the Registrar within six months of the transfer for an order directing such additional period of the use of the prescribed notice as the Registrar shall direct.

### 4. Form of Notice

The notice shall identify the trade mark transferred, give the name and address of the transferor and give the name and address of the transferee.

Note: One additional item might also be usefully required: the date of the transfer.

It should be noted that it is not intended that the use of such a notice as is suggested above would preclude a challenge on the basis of loss of distinctiveness under the provisions of s. 47(2). The damage done to the basic function of a mark and the consumer interest in it where two or more persons are using the same mark (for the same products) or a confusing mark cannot be remedied through the use of such notices. Consequently, s. 47(2) might be amended as follows:

s. 47(2) Notwithstanding any use of notices as provided for in subsection (4) of this section, nothing in subsection (1) prevents ... .

Note that the use of the proposed notices will be optional with the transferee in any case. If the transferee believes that he can preserve the distinctiveness of his mark more conveniently in some other way he is free to do so.

#### 4. Registration of Assignments

Under the present Act it appears that the registration of assignments of registered marks is not mandatory. Once a mark is registered, the register should properly identify its current owner. Consequently, the registration of assignments of registered marks should be made mandatory.

Amendments to the Act of the following nature should be considered:

- s. 47(3)A The transferee of a registered trade mark shall cause the transfer to be registered as prescribed by regulations.

Note: The forms and procedure for registration should be a matter for regulations.

- s. 47(3)B Every assignment of a registered trade mark is void against any subsequent assignee, unless such assignment is registered before the registration of the assignment under which the subsequent assignee claims.

The sanction of the invalidity of the transfer for failure to register the transfer is perhaps too harsh. Failure to register a transfer would be an act contrary to the Act and should be subject to a fine as well as yielding the possible consequences set out in the suggested s. 47(3)B, above.

### III. Disclosure of Information Concerning Licences and Assignments

Above, it was indicated that an effective competition policy is essential to an effectively functioning trade marks system.<sup>63</sup> It was further suggested that the Trade Marks Act is not the appropriate place for provisions which regulate restrictive trade practices which are associated with the use of trade marks.<sup>64</sup> However, experience in Canada and in other countries indicates that the licensing and assignment of trade marks can be associated with certain anti-competitive practices. The proposals made above in this Chapter would eliminate the registration of registered users agreements which will remove a source of some public information concerning trade mark licences. Consequently, it is recommended that a provision be introduced into the Trade Marks Act requiring the filing of information concerning trade marks licences, the use of trade marks by related companies, and the assignment of trade marks.

Such data could be extremely useful for the administrators of the Trade Marks Act and Rules in monitoring the functioning of trade marks system. This kind of information is necessary if the administrators are to be able to follow the Economic Council's very sound recommendations concerning the need for research and policy review in intellectual property,

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63. See above, p. 7.

64. See p. 10.

including trade marks.<sup>65</sup> Further, such data will be necessary in order to monitor and improve the regulation of unduly anti-competitive activity in this area. Such data might also have some use in helping to identify specific abuses when they occur.

It is recommended that a section be introduced into the Act of the following nature:

- s. 49(A)(1) The owner of a registered trade mark, or in the case of a transfer the transferee, shall file with the Registrar such information as may be required by regulation concerning use of the trade mark by persons related to the trade mark owner or concerning any assignment of the trade mark.

It is suggested that the details of the data to be filed be left to regulations to permit greater flexibility in changing the requirements in the light of the administrators' experience concerning the utility of types of data filed and in the light of consultation with the owners of marks on the costs and other problems in filing the data. As a starting

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65. ECC Report, p. 220: "... future reviews of these policies should be more frequent and in some sectors virtually continuous. In addition, we suggest that a more formal and comprehensive public review of these policies should be taken at least once a decade."

In its recommendations concerning patents the Economic Council recommended [p. 89] the disclosure of certain information concerning licences of patents. The ECC did not contemplate the elimination of the registration of registered users agreements for trade marks as is recommended here. Consequently, the Council did not have to consider the appropriate recommendation concerning the filing of information concerning trade mark licences in circumstances in which no such information was being filed.

point the filing of the following information could be considered:

- 1) Name and address of registered owner.
- 2) Names and addresses of all persons related to the registered owner, with those currently using the mark identified.
- 3) The duration of any licence.
- 4) Any geographic restrictions on use by related persons.
- 5) The goods or services for which persons related are authorized to use the mark.
- 6) Control provisions introduced into any licensing agreement.

An important consideration is whether the information should be placed on a public register or whether access should be restricted to prescribed government officials. In large measure it is through actions between contending private parties that the trade marks system is made to work effectively. For example, some of the data might be useful to persons who wish to take action to expunge a trade mark for lack of distinctiveness on the basis of improper licensing. To the extent that the data is helpful to persons legitimately pursuing private remedies, the data should be public.

The most important argument against public disclosure is that it might encourage mark owners to submit insufficient or inaccurate information for fear of revealing information to competitors. The arguments considered to date for confidentiality have not been compelling but later submissions on this issue may reveal fact situations and arguments supporting the need for confidentiality. Consequently, the interim recommendation made here is that the data be filed on a public register.

Another important aspect to be considered is the appropriate sanctions to be applied for failure to file the required data. The sanction must be an effective one in order to ensure the filing of this important information. In this light, the invalidity of any licence or assignment for which such data was not filed was seriously considered. However, in the light of the potential injury to the consumer interest that was discussed above<sup>66</sup> in relation to the registration of registered user agreements, that sanction is not recommended here. A significant fine is, of course, another possible sanction. However, another approach which may give a more effective sanction than a fine alone might be to prohibit the trade mark owner or any licensee from taking legal action for infringement for any period during which the required information has not been filed. Such legislation might provide that the mark owner might bring an action for infringement for the period in which no data had been filed if he could satisfy the Registrar that the failure to file the data was due to oversight or error and was not done with the intent of avoiding the proposed filing requirement in the Act.

A suggested section:

s. 49A(2) No action for infringement shall be brought by a trade mark owner, licensee or transferee during or in respect of any period during which the information required by subsection (1) of this section has not been filed.

(3) On application of the trade mark owner or transferee the Registrar may authorize the bringing of any infringement action the bringing of which is prohibited by subsection (2) provided that he is satisfied that the failure to file the information was due to oversight or error on the part of the trade mark owner and not

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66. See above, p. 89.

with the intent to avoid the requirements of subsection (1), and provided that the required information is filed with the Registrar.

#### IV. Anti-Competitive Impact of Trade Mark Licensing

##### A. Introduction

In this paper it has been stressed at several points that effective competition law and policy is essential to a trade marks system that will function properly in the public interest. The Economic Council stressed the need to coordinate efforts in the competition and intellectual property policy areas<sup>67</sup> and specifically indicated the possibilities for the use of trade marks in anti-competitive ways.<sup>68</sup> However, this paper also recommends that the anti-competitive abuses of trade marks be regulated as a part of general competition policy rather than trade marks law per se, and consequently, this paper makes no specific recommendations regarding competition policy and trade marks.

Nevertheless, the proposed amendments to the law governing trade mark licensing by their nature do invite some comment on their possible competition policy implications. The question examined here briefly is whether the licensing recommendations exacerbate competition policy problems in trade mark licensing.

##### B. Analysis

Some may see a conflict between the licensing recommendations and competition policy in relation to the suggested control requirements. First, it might

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67. ECC Report, p. 6.

68. ECC Report, p. 200.

be argued that the control provisions will require licensors to control their licensees in ways which are contrary to competition law and policy. Second, it might be argued that the control requirements will be used as a defence to charges of the violation of competition law by trade mark owners. Finally, it may be argued that considerable uncertainty is introduced for mark owners in that they will be required to control their licensees in order to maintain the validity of their marks, but they will fear contravening competition law prohibitions in imposing such controls.

However, in response to such arguments it should be noted that the suggested amendments to the trade marks law will not materially affect the existing practices of many mark owners who are presently licensing their trade marks. Mark owners have a considerable incentive to control the use of their marks by their licensees in order to ensure the preservation of the value of their marks. Consequently, the proposals will not add to any control provisions that already exist in many individual licensing arrangements. As well, the existing registered user provisions contemplate the imposition of controls over the licensee and the exercise of those controls in order to preserve the validity of the trade mark licensed. Therefore, the proposals made here may not add to any problems which may already exist in this area as a result of the present law.

Trade mark owners, anti-trust policy administrators and the courts in the United States have had to deal with this kind of problem at least since the introduction of the Lanham Act in 1946. Consequently an examination of the American experience should be helpful for policy makers in this area. While the final reconciliation of trade marks licensing requirements and competition policy are

seen as beyond the scope of this paper,<sup>69</sup> some comments on the American experience are in order.

It is very clear that trade marks and trade mark licensing arrangements can be used in illegal, anti-competitive ways.<sup>70</sup> Abuses have been identified in the U.S. experience in the areas of tying agreements, territorial restrictions, exclusive dealing restrictions and resale price maintenance among others. However, on examination it appears that all of the practices found unlawful for anti-trust reasons were clearly unrelated to any necessary controls over licensees in relation to the proper function of the trade marks.

The purpose for trade marks law in requiring controls by the licensor is to promote the function of trade marks as indicators to consumers of a probable consistency of quality for products distributed in association with the marks. Any controls unrelated to, or unnecessary for this purpose may be found to be in violation of the competition law. An examination of the American experience demonstrates that unlawful, anti-competitive controls can be identified and the problems of doing so in the area of trade mark licensing are not significantly greater for business or competition policy administrators than the task of coping with other applications of competition law.

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69. In part because the competition policy aspects should be studied in the context of total competition policy and in part because competition policy for Canada is under review and revision.

70. See Bill C-227, 1st Session, 29th Parliament; "Proposals for a New Competition Policy for Canada", First Stage, 1973, Dept. of Consumer and Corporate Affairs. Pretty, "Adequate Control or Trademark Misuse - Trademark Licensor's Dilemma", (1967-68) 11 *Idea* 253. (1969) 59 *T.M.R.* at p. 845, note 144.

## CHAPTER FOUR

### INFRINGEMENT

#### I. Current Law

##### A. Introduction

The concept of infringement is statutory and is applicable exclusively to registered trade marks. The analogous remedy for common law trade marks is the tort of passing off.<sup>1</sup>

The 1953 Committee which drafted the present Act gave two distinct meanings to infringement. The first reflected the traditional concept, adopted originally from passing off. The wrong involves the defendant trader deceiving the public into believing that what are in fact the defendant's products emanate from the plaintiff. The deception is achieved through the use of the plaintiff's trade mark or one confusingly similar thereto.

The second aspect of infringement often referred to as "dilution" was first introduced into our legislation in 1953. Infringement was extended beyond cases of deception as to the origin of products and the owners of registered trade marks were given more extensive exclusory rights in relation to their marks. The full impact of the Committee's extension of the meaning of infringement is not yet clear because of a lack of sufficient judicial decisions interpreting the relevant statutory provisions. This latter concept of infringement deserves close examination, particularly in the light of the role of trade marks, as delineated in Chapter One of this paper, as indicators of "source".

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1. See also, Act, s. 7(b), (c).

## B. Present Statutory Provisions

### 1. Deception as to Origin

There are two provisions of the Act which govern deception as to origin, Sections 19 and 20. Section 19 gives the owner of a registered trade mark the exclusive right to use the mark as a trade mark throughout Canada in respect of the wares or services for which the mark is registered.

Section 20 is considerably broader in scope as it deals with a wider range of the kinds of use of the infringing trade mark or trade name by the infringer.<sup>2</sup> Secondly, the section refers not to use of the plaintiff's registered trade mark, but to use of a "confusing" trade mark or trade name by the infringer.<sup>3</sup> Confusion is defined in Section 6 of the Act and that section should be noted, particularly the broad scope of the nature of confusion as set out in ss. 6(1) to 6(4) and the comprehensive nature of the facts to be examined in determining if there is confusion as set out in s. 6(5). This definition of confusion has eliminated some anomalies that previously existed in the law on infringement. In particular, it eliminates the restriction of infringement to cases in which the infringer applies the mark to the same class or kind of wares for which the owner has registered the mark. This problem was particularly troublesome in cases of so-called

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2. There is authority that use in s. 19 is limited to the s. 4 definition of "use". Clairol International Corp. et al v. Thomas Supply (1968), Fox Pat. C. 176 at 192.
  3. The assumption made here is that to be infringement under s. 20 there must be confusion generated in the s. 6 sense by the defendant's action. For a contrary view see, Fox, 3rd. ed., p. 335. See also below, p.126.

'famous marks', i.e., very widely known marks such as Kodak, Coca-Cola or Ford. There were earlier court decisions which indicated that unless the alleged infringer used such a mark on the same class or kind of goods as those for which the owner of the mark had registered it, there was no infringement despite the fact that the mark was so famous that many consumers might think that the products sold by the alleged infringer in fact originated with the owner of the famous mark.

## 2. Expanded Definition of Infringement

### a) 1953 Committee and the Current Act

In recommending revision of the statute the 1953 Committee urged that the definition of infringement be extended beyond the concept of confusion as to origin.

In indicating how the definition of infringement should be extended the Committee referred to two specific English cases which illustrated the kind of fact situation to which it wished to extend the concept of infringement.

In Irving's Yeast-Vite Ltd. v. Horsenail (1934), 51 R.P.C. 110 the plaintiff was the owner of a registered trade mark for a patent medicine, "Yeast-Vite". The defendant, a competitor, advertised and labelled his product identifying it as a substitute for Yeast-Vite. The Court rejected the plaintiff's claim of infringement as there was no use of the plaintiff's mark by the defendant that would deceive the public as to the origin of the defendant's goods as the defendant had clearly identified his product as a substitute for the plaintiff's goods. In Bismag Ltd. v. Amblins (Chemists) Ltd. (1940), 57 R.P.C. 209 the court considered a somewhat similar fact situation in the light of the then amended English trade marks statute. The court held that

under the amended definition of infringement the defendant's use of the plaintiff's mark did constitute infringement. The 1953 Committee disapproved of the Yeast-Vite result and approved of the Bismag decision. It was the apparent intention of the Committee to so draft the Act that it would make fact situations like those in Bismag and Yeast-Vite fall under the definition of infringement in the Act.

The Committee then, appears to have objected to comparative advertising using another's trade mark. Note that no problem arose in the two English cases cited with the truthfulness of the comparison in the advertising. It appears to have been the intent of the Committee to prohibit all such comparisons whether honest or not.

In further delineating the nature of the extension of infringement that it desired, the Committee indicated that, "anything that depreciates the value of the goodwill attaching to a trade mark should be prohibited".<sup>4</sup> The Committee did not indicate any further what it intended by this vague provision except to refer immediately after this comment to "well known trade marks" the owners of which would now have remedies in situations in which such marks are brought "into contempt or disrepute in the public mind".

Another possibility is that the Committee was familiar with the debate concerning the 'dilution' concept of infringement in the U.S. and with the arguments put forward by trade mark owners in that debate for extended property rights in their marks. The Committee does refer expressly to the working out of the concept of infringement in the course of litigation and it may be that they deliberately drafted vague provisions to permit the courts to develop the concept in the light of the developments of subsequent years.

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This phrase is incorporated into s. 22, and into s. 20 as a limiting factor on the proviso excepting certain activities from the definition of infringement.

The Committee Report does not make clear whether it was intended that s. 22 alone deal with the Bismag and Yeast-Vite situations, or whether, as Fox contends in his text,<sup>5</sup> s. 20 was intended to accomplish this purpose and s. 22 was to provide trade mark owners with exclusory rights even beyond those set out in Bismag.

b) The Courts and the Extended Meaning of Infringement

There is one key decision dealing with the extended meaning of infringement, the Clairol<sup>6</sup> decision. The Clairol case did not deal with s. 22 of the Act, so it is of no assistance in determining whether that section defines infringement in terms other than confusion as to origin. The case deals with the extended concept of infringement solely in reference to s. 22.

Thurlow, J. in that case restricted the scope of s. 22 by ruling that "use" has to be defined as set out in s. 2 and s. 4(1), the effect of which would be to limit wrongful uses in the case of marks used with goods to what might be termed 'point-of-sale' uses. This ruling introduces the anomaly that comparative advertising of goods, which may in fact be far more offensive to the mark owner, is not affected by s. 22. A further anomaly is that 'use' for marks in relation to services is defined in s. 4(2) to include use in advertising.

The nature of the wrong as defined in s. 22 is use that is likely to depreciate the value of the goodwill of a registered mark. In Clairol "goodwill" was defined as follows:

"[it] consists of the whole of the advantage, whatever it may be, of the reputation and connection, which may have been built up by

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5. Fox, 3rd. Ed., p. 340.

6. Clairol v. Thomas Supply (1968), 38 Fox P.C. 176 (Ex. Ct.)

years of honest work or gained by lavish expenditure of money and which is identified with the goods distributed by the owner in association with the trade mark."

As examples of the elements of the "whole advantage" that is goodwill, Thurlow, J. expressly mentions the likelihood of purchasers of the trademarked product purchasing that product again through their previous satisfaction with the product, through being told by friends of their satisfaction with the product, or through the effect of advertising. To "depreciate the goodwill" in s. 22 then means "... simply to reduce in some way the advantage of the reputation and connection to which I have just referred."

These sweeping definitions of 'goodwill' and 'depreciate' would effectively catch all forms of comparative advertising, subject to the definition of 'use' limitation dealt with above, whether truthful or not. Thurlow, J. in Clairol expressly found that the comparisons made by the defendant were truthful.

## I. Recommendations

### A. Deception as to Origin

#### 1. Introduction

Generally, the recommendations of the 1953 Committee as enacted into our present legislation that deal with infringement as deception as to origin of goods or services are desirable and effective. This concept of infringement is fully consistent with our recommendation in Chapter 1 of a definition of trade marks as indicators of origin. The reforms introduced by the 1953 Committee which improved and extended the concept of confusion as to origin should be preserved. For example, the elimination of the old requirement that the infringing

use be in relation to the same class of wares as that for which the trade mark was registered was a desirable step. In general, it is desirable to preserve the broad concept of confusion as it is found in the Act, s. 6 so as to include any case in which the public may be confused as to the source of goods or services. For example, the use of famous marks on products completely unrelated to those for which the mark is registered should be prohibited in cases in which such use leads the public to believe that the mark owner has entered a new field of business. The existing definition of "confusing" in s. 6 would appear to achieve such objectives when used in conjunction with s. 20. However, some modifications to both sections 6 and 20 should be considered to ensure that they properly achieve the objective to give the mark owner an adequate remedy against deception as to origin.

## 2. Section 6: "Confusion"

A modification should be made to s. 6 to make it consistent with the proposed definition of "trade mark".<sup>7</sup> If the proper function of a trade mark is to indicate goods or services from the owner of the mark or "persons related" to the owner then the definition of confusion should refer to confusion created as to that function.

Suggested amendments to Section 6 are:

- s. 6(2) The use of a trade mark causes confusion with another trade mark if the use of both trade marks in the same area would be likely to lead to the inference that the goods or services associated with such trade marks are manufactured,

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7. See above, p. 44.

processed, produced, sold, distributed, leased, hired or performed by the same person, or persons related to the same person, whether or not such goods or services are of the same general class.

[Underlined portions are new]

Similar changes should be introduced into 6(3) and 6(4).

### 3. Section 20

As suggested above, the primary legitimate scope of protection for the owner of a registered trade mark is to prevent confusion as defined in s. 6 of the Act. At least one commentator<sup>8</sup> has suggested that Section 20 may extend further than a remedy against causing confusion and its language might be susceptible to such and interpretation.

A suggested modification to s. 20 which could make its purpose clearer follows:

s. 20 The right of the owner of a registered trade mark to its exclusive use shall be deemed to be infringed by a person not entitled to its use under this Act who sells, distributes or advertises goods or services in association with the trade mark or another trade mark or trade name, in a manner which causes or is likely to cause confusion, but no regis-

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8. Fox, 3rd. Ed., p. 329. The 1953 Committee Report is unclear as to the specific intent concerning the intended function of each of sections 19, 20 and 22. Fox, 2nd Ed., pp. 1164-1167.

tration of a trade mark prevents a person from making

(a) any bona fide use of his personal name as a trade name, or

(b) any bona fide use, other than as a trade mark,

(i) of the geographical name of his place of business, or

(ii) of any accurate description of the character or quality of his wares or services,

[[in such a manner as is not likely to have the effect of depreciating the value of the goodwill attaching to the trade mark.]]

Note: A recommendation is presented below for amending the final words of this section, [those in parentheses].

A further amendment, to s. 2, might be in order:

"confusion" when applied to the result of the use of a trade mark or trade name, means confusion caused in the manner and circumstances described in section 6.

## B. Extended Concept of Infringement

### 1. Section 22

Callmann in his text, Unfair Competition, Trade Marks and Monopolies, 3rd Ed.,<sup>9</sup> presented an argument in favour of an expanded concept of infringement. That type of activity, beyond

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9. 1969, Callaghan & Company, Mundelein, Illinois, Vol. 3, pp. 953-986.

causing confusion that he would have included in the definition of infringement, he called "dilution". The term appears to come from a concept of diluted selling power through others than the owner using the mark even though they do so in a non-confusing manner.

A number of arguments are presented to support an expanded concept of infringement including:

- 1) There may be greater danger of the mark becoming generic if others are permitted to use the mark. Indeed, another may deliberately use the mark so as to promote its becoming generic.
- 2) Use of the mark to advertise substitutes amounts to a misappropriation of economic values created by the mark owner. To the extent that the value of the mark is built on advertising, product research and development, etc. such use of the mark misappropriates part of these expenditures. The user of the mark is said to be taking a "free ride" on the advertising and other values created by the mark owner.
- 3) Use of the mark in certain ways or in association with certain products or ideas may bring the mark into contempt or disrepute. E.g., in a U.S. case the defendant employed the plaintiff mark owner's distinctive script writing, colours and designs in making posters which read, "Enjoy Coca aine". The court found that while there was no confusion as to the origin of the poster, the unthinking and credulous might believe that the plaintiff sponsored or approved of the poster. Coca-Cola Co. v. Gemini Rising Inc. (1972), U.S. D.C.

Trade mark owners should not have the right to prevent the ordinary growth and change of the English and French languages as used in Canada through some type of statutory remedy against those who use their trade marks as generic terms.<sup>10</sup> There might be some sympathy with providing a mark owner with a remedy against competitors who deliberately use the mark owner's trade mark so as to cause it to become generic. However, as long as the mark retains significant distinctiveness such use may well fall within the definition of infringement<sup>11</sup> in ss. 20 and 6 or within prohibited activity in s. 7.<sup>12</sup> It would be logical for a competitor to adopt such a practice only if there were already considerable doubt as to whether the mark was still distinctive or had become generic. In such a case, the mark owner's remedy should rest only on the question of confusion.<sup>13</sup>

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10. This issue is considered further in the Chapter on "Distinctiveness", below, p. 136.
  11. As such use would often cause confusion despite the competitor's attempt to use it in a generic context.
  12. Particularly if the recommendation concerning the adoption of a prohibition of misleading "sponsorship" is adopted. See below, p. 165.
  13. It can be argued that there are sound competition policy reasons for not providing remedies against the generic use of marks. The existence of such remedies might encourage mark owners to heavily promote and advertise their marks so that they become virtually synonymous with a particular type of product, because they have less fear of their marks becoming generic terms. Marks which achieve such fame can be regarded as unreasonable barriers to entry of competitive firms because consumers are so familiar with the famous trade marks that they refuse or fail to consider competing alternatives even when it would be rational for them to do so.

The argument concerning "free rides" is not persuasive. The owners of trade marks have no convincing claim to be protected against competition through the use of true and not misleading product comparisons using their trade marks. Where the comparisons are false or misleading the mark owner has adequate remedies under s. 7 of the Act.<sup>14</sup> It is sometimes suggested that such a remedy is inadequate as it doesn't cover cases where there are no specific false or misleading statements, but where the comparison is still unfair and not helpful to the consumer. Such comparisons are no less helpful to consumers than a large part of the advertising engaged in by mark owners and the argument for prohibiting it is no stronger than the argument for prohibiting all advertising "puffery".

The effect of the Clairol<sup>15</sup> decision is to prevent competition through honest comparison of products by reference to trade marks in some circumstances. Since consumers rely on trade marks as indicators of the probable consistency of product qualities, the only meaningful way to compare products from different "sources" is often to refer to specific trade marks. The right to use the trade marks of others in marketing efforts may be especially important to competitors in situations in which one competitor has been first into a particular geographic or product market and has established a nearly impregnable position. This may have been

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Section 7(a) or (d).

See above, p. 123.

the situation in the Clairol case itself. Provided that a mark is not used in the context of giving false or misleading information, permitting such use is necessary to encourage competition.

The Economic Council recommended that s. 22 be modified "in order to permit accurate statements by competitors as to the comparative advantages of their products."<sup>16</sup>

The effect of s. 22, at least as interpreted in Clairol, is to expand the scope of property rights in registered trade marks. As is discussed by the ECC in its Appendix A<sup>17</sup> property rights are never absolute in our legal system and are often greatly circumscribed by balancing public policy interests. In the context of trade marks, the balancing public interest is in accurate product information for consumers and the promotion of fair, effective competition. Section 22 as interpreted in the Clairol case is too restrictive of competitive activity to be consistent with the public interest.

It is sometimes argued that s. 22 is needed to adequately protect mark owners' rights in so-called "famous marks". The submission made here is that s. 22 is unnecessary for this purpose. The only proper area of protection for such famous marks is against confusion. Section 6 of the Act is broadly drafted<sup>18</sup> in order to catch confusion in the

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16. ECC Report, p. 214.

17. ECC Report, p. 221.

18. Section 6 is made even broader with the suggested amendment above, p. 128.

famous marks cases. The section specifically directs courts to consider confusion "whether or not such wares or services [on which the alleged infringer uses the famous mark or a possibly confusingly similar mark] are of the same general class". Furthermore, in s. 6(5) the court is directed to consider "all the surrounding circumstances" and including "the extent to which they [marks or trade names] have become known" and "the length of time the trade marks ... have been in use". Any implication of the sponsorship or approval of the famous mark owner of the use of a famous mark by another which might not fall within s. 6 should be caught by the suggested amendment to s. 7, below.<sup>19</sup>

Consequently, it is recommended that s. 22 be eliminated from the Act.

## 2. Section 20

The proviso to s. 20 contains the same words as are found in s. 22. The objection to the inclusion of these words in s. 20 is basically the same as the objection to the retention of s. 22. Section 20 is discussed in the Chapter on Distinctiveness, below<sup>20</sup> where it is recommended that the last three lines of that section be eliminated and replaced with language which protects mark owners only against causing confusion.

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19. See p. 165.

20. See p. 140.

## CHAPTER FIVE

### DISTINCTIVENESS

#### I. Introduction

It is a basic requirement of trade mark law that a trade mark must be "distinctive".<sup>1</sup> In order to acquire trade mark rights the owner must establish that his mark actually distinguishes<sup>2</sup> his products from those of others or is at least inherently capable of so distinguishing.<sup>3</sup> Trade mark rights are lost when a mark ceases to be distinctive. "Distinctiveness" is closely tied to the consumers' interest in not being confused concerning the use of trade marks. Consequently, it is important that this concept be properly administered under the law. This Chapter deals with some problems that have arisen in relation to distinctiveness under the present Act.

#### II. Trade Marks Becoming Generic Descriptions

The expungement of the registration of a trade mark on the grounds that it is not distinctive because it has become a generic term for the type of goods or services to which it is applied presents a problem of reconciling conflicting public policy interests. The difficulty occurs in determining at what point a mark should be regarded as generic. To some consumers a particular mark may be a generic term, yet at the same time other consumers may regard it as a trade mark only, while others use the mark in both ways in different contexts.

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1. Act, ss. 2, "distinctive"; 12(1)(2); 16(1); 37(2). See comments of Gibson, J. in Sarco Canada Ltd. v. Sarco Co. Inc., [1968] 2 Ex. C.R. 537; 56 C.P.R. 80.

2. He must show this at common law.

3. He will be entitled to register under ss. 12(1), (2); 16.

At one time the law apparently was that a trade mark must only identify the wares or services of the mark owner in order to be distinctive.<sup>4</sup> However, a more recent court decision<sup>5</sup> indicated that it is sufficient that the trade mark indicates the products of the owner of the mark for a substantial segment of the consuming public in Canada. In that decision Kerr, J. dealt with an application to expunge the registration of the trade mark "Thermos" for vacuum bottles. On the facts in that case Kerr, J. reached the following finding:

"I am satisfied that the word 'thermos' has become a commonly used word descriptive of the ordinary vacuum bottles which the applicant and the respondent manufacture and sell, ...".<sup>6</sup>

However, Kerr, J. also found,

"Although the word 'thermos' is now commonly used in a descriptive sense, I do not regard it as a merely descriptive word, in the sense that 'shredded wheat' or 'cellular cloth' were said to be merely descriptive in the cases in which their significance was the subject of judicial decision".<sup>7</sup> [Emphasis added.]

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4. Comments on this point are found in: Cheerio Toys and Games Ltd. v. Samuel Dubiner, [1965], 1 Ex. C.R. 524; affirmed by 55 D.L.R. (2d) 313 (SCC) and Sarco Canada Ltd. v. Sarco Co. Inc., [1968] 2 Ex. C.R. 537; 56 C.P.R. 80.
  5. Aladdin Industries Inc. v. Canadian Thermos Products Ltd. (1969), 57 C.P.R. 230 [Ex. Ct.].
  6. 57 C.P.R. at 272.
  7. Ibid.

He also stated that the trade marks in question, at the time the expungement proceedings were commenced,

"... were distinctive of the respondent's bottles to a substantial portion of the consumer public throughout Canada, to many and not only to a few, although I cannot put percentage figures on the portion to which the trade mark was then distinctive and the portion to which it was not."<sup>8</sup>

On the basis of these findings of fact Kerr, J. concluded:

"Therefore, notwithstanding my conclusion as to the generic and descriptive use of the word 'thermos', I do not think that the trade marks should be found to be invalid under s. 18(1)(b)."<sup>9</sup>

The conflicting interests involved are those of the mark owner in preserving his interests in the mark as an identification of his products and the interests of competitors in being permitted to use a generic term, descriptive of their products. Further, there is the paramount interest of the general public in not being confused as to the identification of products, either by trade marks or generic terms. Kerr, J. discussed these conflicting interests as follows:

"There are conflicting interests among the manufacturers and sellers of vacuum bottles. There is the interest of the respondent [the registered owner of the trade mark] to maintain its trade mark and to have the advantage of whatever good reputation is associated with that trade mark. There is the interest of

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8. 57 C.P.R. at 273.

9. Ibid.

the applicant [to expunge] to be allowed to use the generic term thermos in connection with its vacuum bottles so as to improve its competitive position. I am assuming that the applicant is under a disadvantage of not being able to use that generic term. However, I do not preclude the possibility that the applicant might find it possible to use that term in its generic sense, with limitations or qualifications, in a way that would not mislead the public or infringe the respondent's trade marks or depreciate the value of the goodwill attaching to the trade marks. A way was found in the United States. I express no opinion as to whether it is possible to find a way in Canada."<sup>10</sup>

The solution found in the United States that Kerr, J. referred to was another court decision concerning the trade mark "Thermos".<sup>11</sup> In that case the court found that the mark had become a generic term in the United States but that there was an appreciable segment of the public which recognized it as a trade mark. Therefore, in order that the public not be confused the trade mark was held to be valid. However, the court also held that the competitor could use the mark as a generic term provided that certain conditions were observed in order to prevent confusion

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10. 57 C.P.R. at 274.

11. American Thermos Products Co. v. Aladdin Industries Inc. 207 F. Supp. 9, 134 U.S.P.Q. 98 (D. Conn. 1962)

of the public.<sup>12</sup>

Kerr, J. indicated<sup>13</sup> that he expressed no opinion as to whether a competitor of the owner of the registered mark "Thermos" could find a way in Canada to use the term "thermos" as a generic term. One part of the Trade Marks Act which might unduly hinder a competitor in so using the term is the concluding portion of s. 20.<sup>14</sup>

That section permits any person to make,

"(b) any bona fide use, other than as a trade mark,

...

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12. The restrictions were that, a) the competitor should precede each use by it of the word "thermos" by the possessive of the name "Aladdin" [the competitor's name], (b) confine its use to lower case letters throughout as "thermos", and at no time be permitted to use the word with the initial capital "T", (c) the size and style of type used must be the same for all seven letters of the word and at no time be larger in size than any of the letters of other names with which it is used, (d) the defendant was prohibited from using in its labelling, advertising, or publication releases, the words "genuine" or "original" or any other words or phrases synonymous therewith related to or referring to the word "thermos", (e) the word "thermos" should never appear as the first word of a sentence, and a phrase such as "thermos bottles by Aladdin" would therefore not be acceptable.
13. See above, at note 10. Of course, such use must not confuse the public as to the origin of the products distributed.
14. Referred to above, in the Chapter on Infringement, p. 135.

ii) of any accurate description  
of the character or quality of  
his wares or services,

in such manner as is not likely to have  
the effect of depreciating the value of  
the goodwill attaching to the trade  
mark."

It can be noted that s. 20 of the Act is similar  
to and appears to serve the same purposes as s. 8 of  
the British Trade Marks Act, 1938:

"No registration of a trade mark shall  
interfere with -

a) any bona fide use by a person of  
his own name or of the name of his  
place of business, or of the name,  
or of the name of the place of  
business, of any of his prede-  
cessors in business; or

b) the use by any person of any bona  
fide description of the character  
or quality of his goods, ...".

In interpreting the section in the prior British  
Act which had the same wording Lawrence, L.J. stated,<sup>15</sup>

"In my opinion the object of Section 44 was  
to safeguard traders in cases where the  
registered trade mark consisted of more or  
less descriptive words forming part of  
the ordinary English language without the  
use of which the other traders would  
find some difficulty in describing certain  
qualities of their goods."

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15. J.B. Stone Co. Ltd. v. Steel Lace Manufacturing,  
(1929), 46 R.P.C. 406, referring to s. 44 of  
the Trade Marks Act, 1905.

The British Act does not have a proviso relating to the depreciation of the goodwill of the trade mark. The qualification that does appear in that Act is that a person must not use a descriptive term in a manner that suggests that the user has the right to use a trade mark or a certification mark. Such a qualification is necessary to prevent deception of consumers as to the origin of products.

As noted in the Chapter on Infringement, trade mark owners and the public are adequately protected against confusion by the first part of s. 20 as proposed to be amended.<sup>16</sup> As well, protection is found in s. 7 of the Act and in the requirement in the latter part of s. 20 that the use of the descriptive term be "bona fide".

Consequently, for the reasons stated here, and for the reasons discussed in the Chapter on Infringement in relation to s. 22 of the Act, it is recommended that the concluding words of s. 20, namely,

"... in such a manner as is not likely to have the effect of depreciating the value of the goodwill attaching to the trade mark",

be eliminated.

If it is thought necessary to have express restrictions over the use of such descriptive terms beyond those already mentioned, a new proviso could be added to s. 20 to replace the words proposed to be deleted. Such a new proviso should refer only to causing confusion. For example,

"... in such a manner as is not likely to cause confusion."

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16. See above, p. 128.

### III. Territorial Distinctiveness

#### A. Introduction

With a national trade marks law, particularly in a country with the geographic distances and distinct regions of Canada, problems inevitably arise concerning the localized use of trade marks. The present Act has several specific provisions designed to achieve a balance between the interests of the owners and users of local marks and the effect of a statutory trade marks system which is basically national in scope. Some problems of a national trade marks system in relation to local marks are considered in this part of the Chapter.

#### B. Geographic Definition of "Distinctiveness"

The problem dealt with here is the case of a registration obtained for a trade mark that is inherently distinctive.<sup>17</sup> Under s. 19 of the Act the registered owner of such a mark acquires,

"... the exclusive right to the use  
throughout Canada of such trade mark  
in respect of such wares or services."

The owner retains these rights unless the registration is shown to be invalid. Section 18(1)(b) of the Act provides that the registration of a mark is invalid if the mark is not distinctive. "Distinctive" is defined in the Act as follows:

s. 2 "'distinctive' in relation to a trade mark means a trade mark that actually distinguishes the wares or services with which it is used by its owner from the wares or services of others or is adapted so to distinguish them."  
[Emphasis added.]

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17. That is, a mark for which "secondary meaning" need not be established under ss. 12(2) and 31(2).

A problem arises as to the application of the concept of distinctiveness in a case where such a registration is obtained for a mark which is used only in a part of Canada, for example in one city. In such a case, must the trade mark "actually distinguish" or be "adapted ... to distinguish" throughout Canada?

A mark ceases to be distinctive if more than one person<sup>18</sup> uses the same mark for the same goods and services in the same area so that the public becomes confused as to what source the mark indicates, or so that the public associates the mark with more than one source. The problem considered here arises where the registered owner of the mark uses it in one area of Canada and no other person uses the mark in that area. However, another person<sup>19</sup> uses the mark in another area of Canada where the public identifies that other person as the "source" indicated by the mark and not the registered owner as the source. Has the mark ceased to be distinctive under s. 18(1)(b)?

In Great Lakes Hotels Ltd. v. Noshery Ltd.<sup>20</sup> the Exchequer Court considered the case of the trade mark, "Penthouse", which had been registered with respect to restaurant services. The registrant, [the respondent in the case], used the mark only in Toronto. The applicant in the case applied to expunge the trade mark on the ground that it was not distinctive of the registrant's services. The evidence indicated that there were four other businesses that had been using the trade mark in association with similar services. Those businesses were located in Vancouver, Edmonton, Hull and Montreal.

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18. Other than registered users of one person.

19. There could be more than one such person in the same area or each in different areas.

20. (1968), 56 C.P.R. 165. [Ex. Ct.]

In his judgment Cattanach, J. found that the registrant's mark was still distinctive and should not be expunged. Cattanach, J. stated in reference to the definition of "distinctive" in s. 2 of the Act:

"Must that definition of 'distinctive' be interpreted as meaning that the trade mark must actually distinguish the wares and services of its owner from the wares or services of all others in Canada, or is a trade mark distinctive within the meaning of that definition if it actually distinguishes the wares of its owner from those of others in a very limited area in Canada as, in the present instance, the territorial area of the Municipality of Metropolitan Toronto?

I think that a trade mark is distinctive within the meaning of the definition of distinctive in s. 2(f) if the mark actually distinguishes the wares or services of its owner from the wares or services of others in a particular restricted area of Canada.

In reaching this conclusion I am influenced by s. 31(2) of the Trade Marks Act which authorizes the Registrar of Trade Marks to restrict the registration of a trade mark to the wares or services in association with which the trade mark is shown, by evidence furnished to the Registrar under s. 32(1), to have been so used as to have become distinctive and also authorizes the Registrar to restrict the registration to the defined territorial area in Canada in which the trade mark is shown thus to have become distinctive."<sup>21</sup>

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21. 56 C.P.R. at 178.

It is respectfully submitted that Cattanach, J. was correct in stating that a mark need not actually distinguish the products of the mark owner from the products of all others in Canada. That is, the mark need not be used by the owner throughout Canada. However, it is respectfully submitted that Cattanach, J. might have found under the Act that a mark must be distinctive in the sense that it must either actually distinguish or be adapted to distinguish in all parts of Canada. A mark is adapted to distinguish in any part of Canada where it is inherently distinctive<sup>22</sup> and has not been so used in that part of Canada by a person other than the registrant as to be identified by the public with that other person.

The policy argument for requiring "national distinctiveness" as submitted above follows: Under s. 19 the registrant acquires the exclusive right to use the mark throughout Canada. It is not the obligation of the registrant to use his mark in every part of Canada in order to preserve the validity of his registration. However, the registrant can bring infringement actions against any person using his mark in any part of Canada even though the registrant has never used the mark in that area. To preserve his national trade mark rights the registrant must be vigilant over the entire country to prevent infringing uses of his mark which might cause the public to identify other users of the mark, in the areas where so used, as the "sources" indicated by the mark.<sup>23</sup>

It can be argued that unfairness could result if there is no such obligation to preserve distinctiveness in cases such as the following. A registrant

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22. That is, is not within the prohibitions to registration in s. 12(1) of the Act.

23. This 'obligation' might be regarded as a quid pro quo for preserving national rights.

secured registration for a mark in 1950 and commenced to use the mark exclusively in Montreal and in no other part of Canada. Another person commenced to use the same mark for the same goods or services in Vancouver in 1951. In 1973, the registrant decided to expand his business to Vancouver. The other person already doing business in Vancouver using the mark objected that in so expanding to Vancouver the registrant was unfairly trading on the goodwill established there by him since 1951. That other person would have no basis in law for his complaint as the registrant would have preserved the validity of his mark and his rights to use it nationally, merely by preserving the distinctiveness of his mark in Toronto.

The policy argument against requiring that the mark owner be required to preserve the distinctiveness of his mark throughout Canada follows: Any potential infringer such as the Vancouver user in the above example should be aware that he is not entitled to use the mark from the fact that it is registered.<sup>24</sup> Therefore, such a person should not be entitled to object if the registered owner decides to use the mark in an area in which such a person has commenced using it after registration by the owner. Furthermore, the burden on the registrant of policing use by infringers throughout Canada is too great, particularly for smaller firms.

The recommendation made here is that the registered owner of a mark, for which the owner has secured national rights to exclusive use under s. 19, should be required to maintain distinctiveness nationally in the sense that the mark is at least adapted to distinguish throughout Canada. This will

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24. In fact businessmen, particularly small businessmen remote from Ottawa, frequently do not consult the trade marks register prior to adopting a trade mark or trade name.

require the mark owner to prevent such use by others as may cause his mark to become not distinctive in any part of Canada. Such an obligation is not an unreasonable one in the light of the national rights secured. If such a mark owner fails to prevent his mark from becoming not distinctive in some part of Canada he may lose the registration of his mark. However, this does not mean he will be without trade mark rights. He will be able to prevent others from using his mark in the area where he actually uses his mark provided that his mark is actually distinctive of his products in that area.<sup>25</sup> He will be able to prevent others from registering the mark as he is the prior user of the mark in Canada.<sup>26</sup> However, others may gain the exclusive right to use the mark in areas where they use it and it has become distinctive of their products.<sup>27</sup>

If the Penthouse decision is seen as an obstacle to adopting such an approach, consideration should be given to amending the Act to accomplish the above result. One approach might be to adopt a provision of the following nature:

- s. 2A Unless specified otherwise, in this Act "distinctive" in relation to a trade mark means a trade mark that either actually distinguishes the goods or services in association with which it is used by its owner or persons related to its owner from the goods or services of others or is adapted so to distinguish them , throughout Canada.

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25. Through s. 7 or "passing off" at common law.

26. s. 16(1) of the Act.

27. Section 7 or passing off.

Some argument might be presented that it would be unreasonable that a mark should lose its distinctiveness and thus have its registration expunged if it became not distinctive in one small community in Canada, but was distinctive everywhere else. Whatever language was adopted in the statute, the courts might qualify it in practice to some minor extent to prevent the registration of a mark from being expunged in such a case. Rather than relying on the courts to so qualify the requirement, some qualifying language could be introduced into the statute, e.g., "substantially throughout Canada". However, it is submitted that the obligation to maintain distinctiveness should be co-extensive with the right to sue for infringement. Section 19 uses the language "throughout Canada" without qualification. Again, it is stressed that such an approach does not eliminate all trade mark rights for such loss of distinctiveness, but relegates mark owners to their s. 7 or common law rights in which the right to take action for infringement is co-extensive with the area of actual distinctiveness of the mark in question.

## C. Secondary Meaning and Territorial Marks

### 1. Introduction

A trade mark which is not prima facie registrable because it is a name or surname, or descriptive or deceptively misdescriptive may be registered upon proof that it has become distinctive in the sense of actually distinguishing the wares or services of the applicant.<sup>28</sup> However, the registration may only be obtained for the defined territorial area for which the mark has become distinctive.<sup>29</sup>

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28. Act, ss. 12(1)(a), (b); (2).

29. Act, s. 31(2).

There may be some uncertainty in the law governing the registration of such marks, but the following description is perhaps, a proper interpretation of the Act. A registrant for such a mark may extend the area covered by his registration by showing that his mark has become distinctive in an extended area. The mark owner's rights to take action for infringement extend only to the area for which he holds his registration. Thus, he cannot prevent any other person from using the same mark outside the area for which he has his registration. Such other persons may make the same mark distinctive of their products in the areas in which they are using the mark. However, such persons would appear to be precluded from registering the mark for the areas for which the mark is distinctive of their products.<sup>30</sup> When there is no registration for the mark in question, an applicant for registration who has made the mark distinctive of his products in a particular area would appear to be precluded from registering if any other person has used the mark before the applicant used it even though that other person has not made the mark distinctive in the area in which that other person has used the mark.<sup>31</sup>

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30. Act, s. 16(1)(a) prohibits registration of a mark that is confusing with a mark that has been previously used in Canada. Act s. 12(1)(a) prohibits registration of a mark confusing with an already registered mark. Under s. 6, the later applied for mark appears to be "confusing" even though it is distinctive in the area in which it was used, and the prior used mark is not distinctive in that area.

31. That other person must not have abandoned the mark, Act, s. 16(5). This result appears to arise out of s. 16(1) which precludes registration of a mark confusing with a mark previously used by another, and s. 2, "trade mark", which defines "trade mark" as a mark used "for the purpose of distinguishing" which seems to mean that it need not be distinctive in order to be a trade mark under s. 16(1).

The above analysis shows the difficulties that can be introduced into a statutory trade marks system which is basically national in scope, by attempting to give due regard to locally used marks. Some arguments can be adduced to support changes in the existing law in relation to such trade marks.

## 2. National Registration Only

It might be argued that permitting any territorial registrations for marks is inconsistent with the underlying policy of the Act which is in the direction of a system of national registrations only.<sup>32</sup> Any exceptions to national registration may be regarded as anomalous.<sup>33</sup> Consequently, it might be argued that the only registrations which should be permitted on the basis of secondary meaning should be those in which the applicant can establish the mark is distinctive of his products throughout Canada.<sup>34</sup> Those users of such marks who could not establish national secondary meaning would be required to rely on their common law rights or s. 7. In the latter case protection is co-extensive with actual distinctiveness.

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32. See generally, Clark, Joan, "The Distinctiveness Required for the Validity of a Trade Mark", (1971) P.T.I.C. Proceedings 98.
33. The exceptions are in Act, ss. 12(2); 21; 65 and perhaps s. 2, "distinctive" as interpreted in the "Penthouse" decision, above, note 20.
34. Precisely what type of evidence of this should be required is a question not treated here.

Arguments against such an approach stress that common law or s. 7 protection of a mark is less efficient, more costly and less extensive than being able to rely on statutory infringement remedies. In particular local users of such marks may argue that registration is better protection against possible encroachment on their trade mark position by some enterprise which proposes to operate nationally<sup>35</sup> using the same mark as a local user of a mark.

### 3. Registration By More than One Person

It might be argued that more than one person should be entitled to gain registration for such marks, each for the area for which he was able to establish distinctiveness. It may be claimed that each such person is equally entitled to the benefits of registration and should not be precluded from such benefits simply because some other person previously used and registered the mark for some other area. Furthermore, it may be submitted that permitting such registration introduces greater certainty concerning existing trade mark rights than relegating all but one such mark owner to their common law or s. 7 rights.

The contrary argument might stress that any registration, even one based on secondary meaning, should at least represent an opportunity to expand to nation-wide use of the mark. Permitting others to register the same mark would preclude one registrant from extending his registration to a national basis. As well, it might be claimed that such multiple registrations would add to confusion rather than certainty concerning the status of existing trade mark rights.

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35. Such enterprises are likely to check the register before adopting a mark.

There might be problems in delineating the geographic areas for each registrant for the same mark. Also, the right to so register might encourage more persons to adopt such marks (which are inherently not distinctive when first used), resulting in confusion when goods or people travel from one area to another where there are different mark owners.

#### 4. Applicant Not Precluded by Prior, Non-Distinctive User

It was suggested above that an applicant for registration whose mark is distinctive in a particular area may be precluded from registering his mark by one who used the mark prior to use by the applicant but who has not made the mark distinctive in the area in which he uses it. It can be argued that an applicant should not be precluded from registration in such a case as the mark is distinctive of his products and of no other person's goods or services.

The argument against such a proposal may be that it unreasonably affects prior users of the mark who have not yet established secondary meaning. Such prior users may be unfairly treated as they may be operating in an area where greater efforts and time are required to establish secondary meaning.<sup>36</sup> It might be particularly objectionable if the second user's registration precluded any registration by the prior user when the prior user was finally able to prove distinctiveness in the area in which he used the mark.

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36. Because of a larger area or population, perhaps.

## 5. Conclusion

The problems in reconciling a national trade marks system with the interests of local users of marks will always be difficult. The present Act appears to operate reasonably well. Some aspects of the problems are explored above, but no recommendation for change is made here. Change should come after the analysis of any submissions by those most affected by, or interested in this type of mark.

### D. Rights of Prior Users - Concurrent Use

#### 1. Analysis

Registrations of trade marks are incontestable on the basis of prior use by another after five years from the date of registration.<sup>37</sup> The Act also provides that where a registration has become so incontestable, a person, other than the registrant, who used the mark in good faith prior to the application for registration may be the beneficiary of a court order permitting him to use the mark in a defined territorial area subject to such terms as the court deems just.<sup>38</sup>

The logic of the five year limitation period is that such a period is sufficient for prior users to object to the registration and that at some point a mark should become secure against possible challenges on the basis of prior use.

Two distinct categories of persons may benefit by an order under s. 21(1). First,

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37. Act, s. 17(2).

38. Act, s. 21(1).

those who first used the mark prior to the first use by the applicant, but are barred from applying for expungement under s. 17(1) because more than five years have passed since the registration and they cannot establish that the registrant adopted the mark knowing of their prior use.<sup>39</sup> Secondly, those who first used the mark after the first use by the registrant but prior to the date of application for registration, and who so used the mark in good faith. The primary meaning of "good faith" appears to be without knowledge of the prior use of the registrant.<sup>40</sup>

The logic of extending protection to both groups of persons is to prevent registration by another from divesting them of trade mark rights they might have acquired at common law before the application for registration. The problem arises because registration gives the exclusive right to use the mark throughout Canada [s. 19], whereas at common law rights were only co-extensive with the area of actual distinctiveness of the mark.

The availability of such orders for the first user of the mark recognizes that such persons, particularly small businessmen remote from Ottawa and the Trade Marks Office, who would have a right to prevent registration by another and a better right to register themselves, may not learn of another's application and registration until the five year limitation period in s. 17(2) has run. Especially since

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39. See Kayser-Roth (1969) Ltd. v. Fascination Lingerie Inc. (1971), 3 C.P.R. (2d) 27 [Ex. Ct., F. Ct.]

40. See Fox, 3rd. Ed., p. 215.

such persons would have had rights at common law, (and under s. 7 of the Act), to use their marks in the area in which they were distinctive of their products, it may seem unreasonable to completely preclude them from using their marks on the basis of a later user's registration.

Similarly, one who commences to use after the first use by the registrant, without knowledge of that prior use, and prior to the date of application<sup>41</sup> could acquire common law rights in the mark to use it in the area in which such user had established distinctiveness.<sup>42</sup> Since there is no systematic means of notification of any prior use before an application for registration is filed, it can be argued that it is unreasonable to deprive a mark user of rights he may have acquired at common law prior to the filing of an application for registration by another. A contrary

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41. At which date any one who checks the register in the Trade Marks Office would discover the application (This ignores delays in placing the applications in the public register). The implication is that any one contemplating adopting a mark should check the register. Theoretically if one checks the register and finds no application or registration for a confusing mark, one may proceed to use the mark immediately (provided one has no knowledge of prior use by any one else where such mark has not been abandoned) and be assured that one secures, possibly, at least some rights to use the mark, at a minimum an order under s. 21(1).
  42. The prior use by another in a different area would give that other no basis in law for preventing use by him in the area where he had acquired distinctiveness for his mark.

argument to granting persons in the latter category any such rights as in s. 21(1) may be as follows. It might be argued that the right to register and to obtain the exclusive right to use a mark throughout Canada is created with the first use in Canada. Therefore, no one should be able to obtain any conflicting rights under the Act after that point in time, regardless of the fact that his use of, or investment in the mark is done unknowing of the first use of another.

The model for the present s. 21(1) used by the 1953 Committee was the equivalent provision in the British Act of 1938.<sup>43</sup> That Act provides that the trade mark rights of one who used the mark, a) prior to first use by the registrant, or b) prior to the registration of the mark by the registrant, are not affected by the registration.<sup>44</sup> It would appear to have been the intent of the drafters of the Canadian Act s. 21(1) to protect the same two classes of persons. The reference in s. 21(1) to use prior to the date of application rather than use prior to the first use by the registrant appears to be made with that intent.

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43. 1953 Committee, Fox, 2nd Ed., p. 1176. Trade Marks Act, 1938, ss. 7, 12.

44. Such provisions protect rights acquired at common law in trade marks from being divested by registration of the mark by another. The problem arises because registration gives nation-wide rights to use the mark [s. 19] whereas, at common law, trade mark rights were only co-extensive with the area of the actual distinctiveness of the mark.

However, s. 21(2) seems inaptly drafted to protect the rights of both classes of persons. The result of the drafting is that a person who first used the mark after the first use by the registrant, but before the date of the application for registration, can claim an order under s. 21(1) only if the mark in question is entitled to the protection of s. 17(2), i.e., has been on the register for five years. Since such a claimant is not a first user who might apply to have the registration expunged under s. 17(1) and thus is not one potentially barred by s. 17(2), there seems to be no reason to restrict such orders in the case of such persons to marks which fall within s. 17(2). If such a person is on the logic entitled to an order under 21(1), he is logically so entitled no matter how long or short a time the mark has been on the register.<sup>45</sup>

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45. Another aspect of the analysis is that one who is claiming an order under 21(1) on the basis of prior use, [i.e., prior to use by the registrant], is one who is primarily entitled to contest the registration on the basis of prior use under s. 17(1). Therefore, to establish his claim to an order under 21(1), he should properly be required to pass the hurdle of showing that he is blocked from "claiming" s. 17(1) by s. 17(2). This entails showing the mark has been registered for five years, that the proceedings were launched more than five years from registration and that the claimant cannot establish that the registrant adopted the mark knowing of the claimant's prior use of the mark.

Logically, these required showings should have no application to one claiming a s. 21(1) order on the basis of user after first use by the registrant but prior to the date of application.

See Kayser-Roth, above at note 39.

A decision of the Federal Court may throw some doubt on the proper interpretation of s. 21(1).<sup>46</sup> In that case Walsh, J. suggested that the section operates only to protect one who has used prior to the first use by the applicant.<sup>47</sup> This would preclude protection for the interests in the mark of those who first used after the first use by the registrant but prior to the date of the application for registration. However, the particular comments of concern on the interpretation of s. 21(1) in that case may be regarded as obiter dicta only.

## 2. Recommendation

The "first user" class of persons discussed above may be regarded as having the stronger claim to protection for their trade mark interests at issue. Given the fact that small businessmen in particular are unlikely to monitor the advertisements of marks for opposition and to be willing to incur the costs of opposition proceedings it may be realistic to recognize that many will fail to oppose registrations which they should oppose in order to protect their trade mark rights. Consequently, a provision such as s. 21(1) is needed. However, it should be amended to make it clear that only first users may obtain an order under it. Suggested amendment:

s. 21(1) Where, in any proceedings respecting a registered trade mark of which the registration is entitled

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46. Gray Rocks Inn Ltd. v. Snowy Eagle Ski Club Inc., (1971), 3 C.P.R. (2d) 9 [Ex. Ct.].

47. (1971), 3 C.P.R. (2d) at p. 23.

to the protection of subsection 17(2), it is made to appear to the Federal Court of Canada that one of the parties to the proceedings, other than the registered owner of the trade mark, had in good faith used a confusing trade mark or trade name in Canada before the date of the first use in Canada of the

[new] registered trade mark by the registrant, and the Court considers that it is not contrary to the public interest that the continued use of the confusing trade mark or trade name should be permitted in a defined territorial area concurrently with the use of the registered trade mark, it may, subject to such terms as it deems just, order that such other party may continue to use the confusing trade mark or trade name within such area with an adequate specified distinction from the registered trade mark.

The claim for some protection for his trade mark interests of a person who first used the mark after the first use by the registrant but before the date of application is also a strong one. It should be noted that the first user can prevent the registration of another, or expunge another's registration, and so protect his trade mark rights.<sup>48</sup> However, one who uses after the first user, but before that first user files an application for registration has no way of protecting his trade mark interests unless he can obtain protection such as that given in s. 21(1).

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48. Provided that he acts within the period in s. 17(2)

In part the attitude taken to providing some protection for the interests of such persons depends on the attitude taken as to whether the trade marks system should emphasize nation-wide trade mark rights at the expense of the interests of the users of local marks.

The recommendation made here is that protection should be extended to such persons in the form of a new statutory provision which better serves the purpose than the present s. 21(1).

A suggested statutory provision:

s. 21(1)A Where, in any proceedings respecting a registered trade mark, it is made to appear to the Federal Court of Canada that one of the parties to the proceedings, other than the registered owner of the trade mark, had in good faith used a confusing trade mark or trade name in Canada after the first use of the registered trade mark by the registrant but before the date of filing of the application for such registration, and the Court considers that it is not contrary to the public interest that the continued use of the confusing trade mark or trade name should be permitted in a defined territorial area concurrently with the use of the registered trade mark, it may, subject to such terms as it deems just, order that such other party may continue to use the confusing trade mark or trade name within such area with an adequate specified distinction from the registered trade mark.

#### IV. "Adapted to Distinguish"

The definition of "distinctive" in s. 2 of the Act refers to marks which either: (1) actually distinguish (the test to be applied to marks which have been used), or (2) are "adapted" to distinguish (the test applied to proposed marks).

The phrase "adapted to distinguish" has an infamous history in British and Canadian trade marks law. It was used in the context of the tests applicable for the registration of marks which were not inherently distinctive but had been used so as to acquire secondary meaning. In a line of British cases it was decided that the implications of the use of that phrase in the statutes of the time were that certain marks were so descriptive that they could not be registered no matter how clear was the evidence that they had acquired secondary meaning.<sup>49</sup>

While there is no evidence that any problem of interpretation has arisen, the long association of these words with the problem of registering marks on the basis of secondary meaning might mislead some persons as to the function of those words in the definition of "distinctive" in s. 2. As well, the phrase is perhaps not the clearest that could be chosen to refer to the requirement that a mark be inherently capable of distinguishing, i.e., without the need of use so as to establish secondary meaning.

Consequently, it is recommended that consideration be given to amending the last six words of the definition of "distinctive" in some manner such

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49. See 1953 Committee, Fox, 2nd Ed., p. 1147; Fox, 2nd Ed., pp. 49-55. The Unfair Competition Act, 1932, s. 2(m).

as:

"... is inherently adapted so to distinguish them"

OR

"... is inherently capable of so distinguishing them".

[Unerlined portions are new]

## CHAPTER SIX

### UNFAIR COMPETITION

#### I. Introduction

Section 7 of the Act prohibits certain dishonest and unfair trading practices. The basic purpose of s. 7 is to give traders remedies<sup>1</sup> against competitors or others who use such practices to cause injury to the traders' legitimate business interests. Such enforcement of these prohibitions by traders indirectly serves the public or consumer interest, as in pursuing their remedies under s. 7 the traders prevent practices which would result in consumers receiving false or misleading information about products. In this respect the operation of the law under s. 7 is similar to that of the trade marks system itself. Trade marks law ensures that consumers will receive accurate information about the "source" of products through giving trade mark owners the legal power to prevent others from using their marks or confusingly similar marks so as to mislead the public as to the source of goods and services. Thus, the public interest is served by traders pursuing their private, profit-making interests.

#### II. Economic Council Recommendations

The ECC's recommendations concerning s. 7 were of an administrative nature. The Council recommended that,

- a) "Section 7 be more actively enforced and that penalties in the form of fines and expungement be provided."

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1. Reference to possible enforcement of s. 7 by government prosecution is made below, p.174.

- b) "[Section 7] be administered by the Combines Branch or the Consumer Bureau of the Department of Consumer and Corporate Affairs".<sup>2</sup>

### III. Amended Scope of Section 7

#### A. Sponsorship

One practice that is harmful to legitimate private interests and to the consumer interest in accurate product information that appears not to be included in s. 7 is deception as to "sponsorship" of goods and services.<sup>3</sup> Two categories of undesirable activity are included within this term.

One category comprises cases in which a trader uses a description of his product which deceives the public into believing that his products are associated with some other, more 'famous' trader. The mistaken impression given to the public is not that the famous trader produces or sells the products in question, but that the famous trader approves of the products or authorizes its name and reputation to be associated with the product.<sup>4</sup> The problem in this type of case is

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2. ECC Report, p. 206.

3. See Barrigar, "Charting Some Boundaries of the Tort of Unfair Competition", (1969) P.T.I.C. Proceedings, 178.

4. The consumer's impression would be that the famous trader had so permitted its reputation to be used only on condition that the quality of the products was satisfactory.

related to the concept of "origin" in relation to trade marks discussed in Chapter One. In that Chapter it was argued that a trade mark indicated to consumers that a single source controlled the use of the mark. Consequently, a definition of "trade mark" was proposed encompassing use of the mark by "persons related" to the trade mark owner. The problem here is essentially the same. It is one of extending protection for common law trade marks and trade names or other trade descriptions indicating "origin" to the same scope as the protection proposed for registered trade marks.<sup>5</sup> Frequently this problem may arise in cases in which the wrongdoing trader's products are in a field into which the more famous trader has not entered [so they are not competitors]. Arguably, this type of wrong is already within the scope of s. 7(b) and is included in the concept of "confusion" in that subsection. However, "confusion" is defined in s. 6 solely in terms of trade marks and trade names while s. 7 does and should extend to causing such confusion by methods beyond the use of trade marks and trade names.

The second type of problem referred to under the term "sponsorship" is the case of a wrongdoing trader deceiving the public into believing that some non-commercial entity [that has no "wares, services or business"] sponsors or approves of the trader's products. Such non-commercial agencies might be charities, educational institutions, professional associations or other such agencies.<sup>6</sup>

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5. See proposed definition of "confusion", above, p. 128.

6. See British Medical Association v. Marsh (1931), 48 R.P.C. 565. A pharmacy used the letters B.M.A. in its sales promotion.

In order to provide remedies to injured traders or associations<sup>7</sup> for both these types of injurious activities, it is recommended that an amendment be made to s. 7 by the addition of a subsection of the following nature:

s. 7 No person shall

...

(f) direct public attention to his goods, services or business in such a way as to cause or be likely to cause confusion, mistake or deception in Canada, at the time he commenced so to direct attention to them, as to the affiliation, connection or association of such person or as to the sponsorship or approval of such person's goods, services or business.<sup>8</sup>

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7. A problem not discussed here and which it is submitted should not be a part of the Trade Marks Act is the legal capacity of non-commercial associations to bring lawsuits under this section. Some such bodies may be incorporated and others may have legal capacity under the special legislation which establishes them. There is also the possibility of class actions by the members of such associations. In an appropriate case the Attorney General of Canada might bring an action for the violation of the prohibitions in s. 7.
8. The language in the proposed section is taken largely from a bill introduced into the U.S. Senate, The Unfair Competition Act of 1971, Bill S-647, 92nd Congress, 1st Session, Section 7.

## B. Section 7(e)

### 1. Introduction

Section 7(e) of the Act contains the following very general prohibition:

"No person shall

...

- (e) do any other act or adopt any other business practice contrary to honest industrial or commercial usage in Canada."

The function of this subsection in our trade marks and unfair competition law is considered here.

### 2. General

This subsection because of its broad, all-inclusive wording is often pleaded by plaintiffs in statements of claim along with other bases for relief, but rarely if ever, has it been found by the courts as the sole grounds for granting relief. The courts have interpreted s. 7(e) by indicating that while practices falling within it must by its express language be acts other than those falling within ss. 7(a) to (d), they must be of the nature as the practices prohibited in those subsections and so be "dishonest or calculated to result in deception."<sup>9</sup> The tendency of the courts in defining prohibited practices under s. 7(e) is to indicate that such practices must be otherwise made unlawful. Thus, one author has stated that s. 7(e) includes only those practices which fall within the genus of the acts prohibited by ss. 7(a) to (d) or one

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9. Clairol International Corp. v. Thomas Supply and Equipment Co. Ltd. (1968), 2 Ex. C.R. 552 at 562.

either a breach of contract or actionable as a tort.<sup>10</sup>

Only a very few cases suggest that s. 7(e) might extend beyond acts already prohibited in other law, and in those cases remedies could very likely have been found under other law. In one case the subsection was used as the basis for an interlocutory injunction in a case of misleading advertising.<sup>11</sup> In that case, the defendant produced an advertising brochure, picturing an oxygen mask which was in fact the product of the plaintiff with the label of the defendant stuck over the plaintiff's label. The court noted that the brochure contained a number of untrue and deceptive statements which were calculated to indicate to the persons reading the leaflet, that the product depicted in the photograph had been manufactured by or on behalf of the defendant, and could be obtained from no one else, when in fact the product produced by the defendant was somewhat different in construction and colour. Mr. Justice Noel stated that although the defendant's actions may not fall under the prohibition contained in paragraphs (a), (b), (c) or (d) of Section 7 of the Trade Marks Act, it was covered by paragraph (e) thereof, in that such statements represented a deceptive practice in representing to the public as the defendant's device, a device which was produced by someone else. The court observed that "such a deliberate and dishonest practice, in addition to being confusing, deceiving and misleading to the public, is also contrary to honest commercial usage in this country."<sup>12</sup>

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10. Fox, 3rd. Ed., p. 479.

11. Therapeutic Research Corp. v. Life Aid Products Ltd., [1968] 2 Ex. C.R. 605; 56 C.P.R. 149.

12. 56 C.P.R. at p. 153.

In examining the role of s. 7(e) in this case it is submitted that it is important to ask whether there were legitimate business values of the plaintiff that could not have been protected under some other part of the law. Protection would be available in a proper case under copyright law for the owner of the copyright in the photograph.<sup>13</sup> To the extent that consumers dealt with the defendant believing they were dealing with the plaintiff, it is submitted that a remedy would be available under s. 7(b) or s. 7(c). As the description of the defendant's goods was false and the plaintiff was a person affected by the description, it is submitted that a remedy should be available under s. 7(d). As well, to the extent that the advertisements implied that such a product could not be obtained from the plaintiff, this could be a statement "tending to discredit" the business of the plaintiff, giving a remedy under s. 7(a). Furthermore, there is other legislation giving public or private remedies for false or misleading advertising.<sup>14</sup>

In another case<sup>15</sup> the plaintiff sold paint which had deteriorated by age at a salvage price of seventy-five cents a gallon compared to the regular wholesale price of six dollars a gallon. As the plaintiff did not wish the paint to be identified with his regular products, all the trade marks and labels were removed from the cans prior to

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13. In such cases the copyright owner would often be the advertiser who had commissioned the taking of the photograph.

14. See below, p. 175.

15. Dupont of Canada Ltd. et al v. Nomad Trading Co. Ltd. (1968), 50 C.P.R. 97; 38 Fox P.C. 98.

the sale. The defendant however, applied new labels to the paint which were very similar to those of the plaintiff. The Quebec Superior Court held that this act violated Section 7(e) of the Trade Marks Act in creating confusion of goods by falsely presenting the character, quality, production and performance of the goods.

However, the court also found trade mark infringement. The wrong in this case was squarely within trade marks infringement, common law "passing off" and ss. 7(b) and 7(c). Consequently, it is submitted that the use of s. 7(e) was unnecessary to give the proper remedy.

### 3. Disclosure of Confidential Information

A specific area in which s. 7(e) is often pleaded and relied upon by the courts is that of the unlawful disclosure of trade secrets or specific confidential information.<sup>16</sup>

There is no need to rely upon s. 7(e) in this area, as the law is well developed under the common law and equity. Without use of s. 7(e) the law has frequently reached to restrain use of such information by employees, former employees<sup>17</sup> or others to whom such infor-

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16. See, e.g., Breeze Corp. v. Hamilton Clamp and Stamp Ltd. (1962), 37 C.P.R. 153 (Ont. C.A.); Vapor Canada Ltd. v. MacDonald (1972), 6 C.P.R. (2d) 204 (Fed. C.A.).
17. Pre-Cam Excavation and Development Ltd. v. Mac-Tavish, [1969] O.R. 551; Tenatronics Ltd. v. Hauf et al, [1972] 1 O.R. 329; Electric Reduction Company of Canada Ltd. v. Crane (1957), 29 C.P.R. 134; International Tools Ltd. v. Kollar et al, [1968] 2 O.R. 201; Cranleigh Precision Engineer Ltd. v. Bryant, [1966] R.P.C. 81. Saltman Engineering Co. Ltd. et al v. Campbell Engineering Co. Ltd. (1948), 65 R.P.C. 203; Seager v. Copydex Ltd. [1967], R.P.C. 349; Bostitch Inc. v. McGarry & Cole Ltd., [1964] R.P.C. 173.

mation has been disclosed in confidence, such as prospective licensees of the secrets.<sup>18</sup> While often such actions are pursued on the basis of a breach of contract the courts have held that the action does not depend on the existence of a contract<sup>19</sup> but rather "... on the broad principle of equity that he who has received information in confidence shall not take unfair advantage of it."<sup>20</sup>

Nothing appears to be gained in the cases by the reliance on s. 7(e). In cases where the subsection is used the courts invariably turn to common law and equitable principles to define the scope of the section.

#### 4. Paris Convention Obligations

The original adoption of s. 7(e) apparently represented an effort to implement Canada's treaty obligations under Article 10

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18. Saltman Engineering Co. Ltd. et al v. Campbell Engineering Co. Ltd. (1948), 65 R.P.C. 203; Seager v. Copydex Ltd. [1967], R.P.C. 349; Bostitch Inc. v. McGarry & Cole Ltd., [1964] R.P.C. 173.
  19. Saltman Engineering Co. Ltd. v. Campbell Engineering Co. (1948), 65 R.P.C. 203 at p. 211.
  20. Seager v. Copydex Ltd. (1967), R.P.C. 349 at p. 368 per Lord Denning, M.R.

bis of the Paris Convention.<sup>21</sup> It is submitted that Canada's obligations under the Convention are already sufficiently implemented by the existence of ss. 7(a) to (d), and our common law.<sup>22</sup>

#### 5. Recommendation

It is submitted that the above analysis demonstrates that s. 7(e) is unnecessary to give remedies to protect any legitimate business interests. The courts have not given its very broad language any meaning beyond prohibiting acts that are otherwise prohibited in the law. In the analysis of s. 22 of the Act<sup>23</sup> it was

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21. Article 10<sup>bis</sup>:

(1) The countries of the Union are bound to assure to persons entitled to the benefits of the Union effective protection against unfair competition.

(2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.

22. Section 7(e) gives foreign nationals no special standing to take legal action under it. Its elimination, therefore, cannot affect their standing to pursue remedies under our law.

23. See above, p. 130.

suggested that very broad statutory language, directed at the protection of no specific, properly protected interest was in general undesirable. As long as such provisions exist there is the danger that they will ultimately be used to prevent desirable competitive activity. In drafting law regulating competitive activity the starting point should be that all forms of competition are desirable and that no obstacles should be introduced to inhibit competition. Only when specific abuses are identified should regulation be introduced to prohibit those abuses.

#### IV. Administration of Section 7

##### A. Enforcement by Government

The Economic Council recommended that s. 7 be enforced by governmental action and that its "administration" be given to the Consumer Bureau or the Combines Branch of the Department.<sup>24</sup>

The original purpose of s. 7 appears to have been to give statutory form to private remedies, for the most part already existing under the law of torts.<sup>25</sup> This section was not introduced with the

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24. See above, p. 164.

25. See explanatory notes to Bill 5, The House of Commons of Canada, 3rd Session, 17th Parliament, 1932, The Unfair Competition Act, 1932, s. 11. 1953 Committee, Fox, 2nd. Ed., pp. 1177-1178.

purpose of providing for the "public" or governmental regulation of undesirable competitive activities. There are in other legislation extensive provisions for the prohibition and regulation of such activity and there exists considerable administrative machinery to enforce those provisions. In particular the Combines Investigation Act<sup>26</sup> and the Consumer Packaging and Labelling Act<sup>27</sup> should be noted.

In the light of the above referred to legislation, it is submitted here that no steps need be taken to refer the "administration" of s. 7 to any particular branch within the Department. It should be noted that both the Combines Branch and Consumer Bureau are aware of s. 7 of the Trade Marks Act and are prepared to utilize it in any case in which it might reach an undesirable practice that other legislation might not.

In this context it might be noted that the Trade Marks Act is not completely clear on the status of the Attorney General to seek remedies or penalties for breaches of its prohibitions. Section 57 of the Act provides that "any person interested"<sup>28</sup> may apply to have an entry in the register struck out or amended on the ground that

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26. R.S.C., 1970, c. C-23. See Bill C-227, First Session, 29th Parliament, 1973 for proposed extensive amendments to this Act. The amendments are explained in "Proposals for a New Competition Policy for Canada", First Stage, 1973, Department of Consumer and Corporate Affairs.

27. S.C., 1970-71 , c. 41, especially s. 7.

28. Defined in s. 2 to include the Attorney General of Canada.

the entry does not accurately define the rights of the mark owner. Also, s. 52 of the Act permits "any person interested" to apply for an order in a case of improper importation of wares bearing trade marks. However, s. 53 of the Act which provides for the penalties that may be invoked for "any act done contrary to this Act" does not make express reference to what persons have standing to bring an action to seek such remedies. For greater certainty it is recommended that the Act be amended so that s. 53 specifically provide that "any person interested" (including the Attorney General) may seek the remedies provided for in that section.

Furthermore, consideration should be given to introducing a section which would permit the Attorney General to seek appropriate penalties beyond those provided for in s. 53, which appear to be directed to private persons enforcing the Act. In particular, fines should be provided for con-travention of the statute.<sup>29</sup> Such penalties appear to be desirable for those cases, although they would appear to be rare, in which the government may wish to enforce provisions such as Sections 7, 9, 10 or 11 of the Act.

For example, a provision could be introduced of the following nature:

s. 53A. Any person who does any act contrary to Sections 7, 9, 10 or 11 of this Act is guilty of an indictable offence and is liable to a fine not exceeding \$10,000 or to imprisonment for a term of two years, or to both.

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29. It appears desirable to have appropriate penalties, specifically provided for, beyond those available under the general power in s. 115 of the Criminal Code, R.S.C., c. 34, which provides for two years imprisonment for a wilful contravention of an Act of Parliament where no other penalty is provided.

## B. Relationship to Other Statutes

British legislation has expressly dealt with the question of the relationship between trade mark use and the standards relating to prohibited trade descriptions or misleading advertising. In the legislation prohibiting misleading advertising or trade descriptions the following provision appears:<sup>30</sup>

34. The fact that a trade description is a trade mark, or part of a trade mark, within the meaning of the Trade Marks Act 1938 does not prevent it from being a false trade description when applied to any goods, except where the following conditions are satisfied, that is to say -

(a) that it could have been lawfully applied to the goods if this Act had not been passed; and

(b) that on the day this Act is passed the trade mark either is registered under the Trade Marks Act 1938 or is in use to indicate a connection in the course of trade between such goods and the proprietor of the trade mark; and

(c) that the trade mark as applied is used to indicate such a connection between the goods and the proprietor of the trade mark or person registered under section 28 of the Trade Marks Act 1938 as a registered user of the trade mark; and

(d) that the person who is the proprietor of the trade mark is the same person as, or a successor in title of, the proprietor on the day this Act is passed.

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30. The Trade Descriptions Act, 1968, 1968, c. 29, s. 34.

The Packaging and Labelling Act, s. 3(1) provides that the Act applies "notwithstanding any other Act of the Parliament of Canada".<sup>31</sup> As well, the Combines Investigation Act misleading advertising prohibitions are broadly drafted and express reference is made to the use of trade marks<sup>32</sup> in section 29 of proposed amendments to that Act. The provisions in these two Acts then, do or will appear broad enough to prevent the use of any defence to a charge of misleading advertising under either Act, that use was being made of a trade mark under the Trade Marks Act.

#### V. Regulation of Restrictive Trade Practices and Trade Marks

It has been stated in this paper that the Trade Marks Act should not be the mechanism for the governmental regulation of unfair or restrictive competitive practices even in relation to trade marks themselves. It is important that trade marks do not provide a shield to prosecution under the competition policy statutes and this appears to have been adequately accomplished in existing or other proposed legislation.<sup>33</sup> It is recommended here that the definition of any substantive anti-competitive offences, the administration of such statutory provisions and the definition and seeking of appropriate remedies all remain within the jurisdiction of the competition policy administrators.

However, reference should be made in this context to the recommendation made above concerning the disclosure of data concerning the use of trade marks by

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31. Section 3(1).

32. See Bill C-227, above, note 26, sections 36-38.

33. Combines Investigation Act, s. 29. See Bill C-227, s. 29.

related persons.<sup>34</sup> The collection of such information is essential for the development and monitoring of competition policy in relation to the use of trade marks. The provision requiring the statutory provision of such data and the actual collection of it however, should be within the competence of the administrators of the Trade Marks Act for administrative convenience. The administrators of competition policy should be closely consulted in the drafting of the regulations which will specify the information to be provided under this requirement.

## VI. Research Function

In its study of intellectual property the Economic Council recommended the formation of a "Policy Advisory and Planning Group" which was described as a "small, high quality group with expertise in economics, technology, and law to evaluate the effects of intellectual property laws, and to do research with new policy problems and advise our positions for international negotiations".<sup>35</sup>

This recommendation reflects the increased awareness of the public interest aspects of intellectual property, and also the difficulties which a rapid rate of technological change poses for developing legislation and policy and the growing belief that law reform must be a constant process with specialized personnel charged with the task.

It is perhaps inappropriate to detail any recommendation on this matter here except to note that scholarly analysis of intellectual property problems in Canada does not appear to compare with the volume of research in the United States or Europe. The research undertaken in Canada is largely the product of an energetic practising bar,

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34. See above, p. 115.

35. ECC Report at pp. 87-88.

but the focus of such research may not satisfy all needs. As well, the difficulties encountered in preparing this paper appear to confirm the need for a research group of the nature suggested by the ECC.

## VII. Criminal Code Provisions

Certain unfair trade practices involving the use of trade marks have for a number years been found as offences under the Criminal Code. Sections 364, 365 and 367 provide an offence for the forging of a trade mark, and Section 366 provides an offence where a person, with intent to deceive or defraud the public, passes off other wares or services for those ordered or required. Section 368 of the Criminal Code provides that it is an offence to deface a trade mark or to use a trademarked bottle without consent, while Section 369 provides that selling reconditioned or remade goods bearing the trade mark or trade name of the original producer, without adequate disclosure constitutes an offence.

These sections may reflect the state of the law in an earlier period when trade mark owners feared there were not adequate private remedies to protect their interests and public officials believed such provisions were necessary to provide for public protection. However, in the light of the extensive powers of trade mark owners to protect their own interests under the Trade Marks Act, and in the light of the powers given to the Attorney General in the present and proposed Act and the powers available to the government under such legislation as the Combines Act, there may be serious doubt that there is any need for these sections of the Code. Consequently, it is recommended that the matter of removing these sections from the Code be referred to the Department of Justice for consideration.

## CHAPTER SEVEN

### IMPORTATION OF TRADEMARKED PRODUCTS<sup>1</sup>

#### I. The Problem Defined

The "parallel importation" problem results from the concurrent use of identical trade marks on the same type of goods by a foreign and domestic company. For the purposes of discussion, assume an example in which the goods are produced in France by Company A and are purchased and imported into Canada by Company B. The goods are produced under a trade mark and the trade mark is validly applied to the goods by Company A in France under French law. Any other company, e.g., Company C, may apparently purchase the goods from Company A in France and import them into Canada for resale.

However if the first importer Company B, is the registered owner of the same trade mark in Canada (possibly by assignment from Company A) then by the trade mark law of many countries, including Canada, Company B may acquire a monopoly to sell the trademarked goods in Canada. The importation by Company C is an infringement of the trade mark rights of Company B, even if the goods are "genuine" goods. Genuine goods are usually defined as the same type

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1. In European literature the problems referred to here are often termed "parallel importation" problems. The importation is "parallel" in the sense that trademarked products are imported into a country by others than those "authorized" to do so by the trade mark owner in that country. Thus there are two "parallel" streams of importation - one approved of by the mark owner and one not so approved.

of goods from the same manufacturer, bearing the same trade mark, which mark the foreign manufacturer has validly applied to the goods he produces in the country of production.

There are variants of the basic case, some of which are later considered, but for purposes of discussion this can be taken to be the classic situation.

The problem arises in that this monopoly power can work to the detriment of the consumer, in that the price of goods may be higher in the country of importation [Canada, in the example] than would exist were there competition in the sale of this good. Price differentiation, the practice of charging different prices for identical goods in different markets has received substantial economic analysis.<sup>2</sup> The higher price in one market may often be the result of a monopolistic position the seller enjoys in that market. In order to maintain the higher profits resulting from price discrimination it is essential that the seller be able to prevent the goods or services from the lower priced market being transferred to the higher priced market by other sellers. In the example this means that the trade mark owner in Canada must prevent importation of the same trademarked good from other countries.

If the price differential between two countries is great enough, there will be an incentive for third

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2. Robinson, Joan, Economics of Imperfect Competition, (1965), pp. 179-208.

See also, Restrictive Trade Practices Commission, Report on Discriminatory Prices Practices in the Grocery Trade, Department of Justice, Ottawa, 1958, pp. 5-52 for a thorough analysis of price discrimination practices in the domestic context.

parties to buy goods from the lower priced country and import them into the higher priced country. Thus the incentive to import, and the possibility for the owner of the Canadian trade mark rights to use his power to exclude importation and so to participate in international price discrimination, depends on the availability of low cost sources for the trademarked products outside Canada.

In most countries the trade mark rights will be owned by a single entity as in Canada. Consequently, it might be asked why some countries outside Canada might have lower prices for the particular trademarked products even though they have "monopolistic"<sup>3</sup> trade mark positions just as Canada.

Even if the trade mark is owned by one entity in each country, the price of the same goods sold under the same mark may vary from country to country. The reason appears to be that the price a monopolist can charge in each country varies. Consider for example, stereo equipment manufactured in Japan and marked with a famous trade mark. There is by virtue of an assignment by the Japanese manufacturer of its trade mark rights in both countries, exclusive dealerships in both Canada and the United States. Yet, even after taking into account the difference in transportation costs and tariffs, the American price may still be 20 percent below the Canadian price. Why does the monopolist in the United States not extract from the public as high a monopoly profit per unit as the monopolist in Canada?

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3. Note that strictly speaking, the monopoly only extends to the use of the particular trade mark with a particular type of goods. It is not a monopoly on that type of goods themselves. However, where the mark in question is owned by a large supplier in the international markets of that type of good, there are implications not simply for the supply of the good under the mark but simply for the supply of that type of good.

One reason might be that in the United States there is more domestic production of stereo equipment which competes with the Japanese imports; so the seller of the Japanese product is charging the highest price and extracting the highest monopoly profit possible in the United States. There may be a difference in costs. The American price may be lower because the American retailer, as a result of the larger volume of sales, can buy the product from the manufacturer at a lower per unit costs and can provide advertising and servicing at a lower per unit cost.

The question raised is whether Canadian trade marks should be used as a private "tariff" to prevent importation from such lower cost sources. It cannot be concluded with certainty that the elimination of the trade mark barrier to importation would reduce the price to the Canadian consumer. To present the price differential solely as a function of monopolistic price setting is overly simplified. It was noted above that the lower prices in the foreign source may reflect lower costs such as arise from economies of scale in distribution. In addition, the reason a third party selling in Canada can sell below the price of the exclusive dealer in Canada is that although he is prepared to charge as high a monopoly profit as the exclusive dealer, he may not be incurring similar costs or any costs at all with respect to advertising and servicing in Canada. Yet, regardless of the reason for the price differential, the question remains whether trade marks should prohibit the free flow of products and potential economies which consumers might realize.

The question ultimately turns on the question of the proper function of trade marks, which in turn will determine when a trade mark is being

infringed. The different views on this point within the context of parallel import situations can be seen by examining the law of various countries.

## II. The Present Law

### A. United States

Prior to 1922 there was no prohibition against parallel imports in the United States. The principle, initially established in Apolinaris Co. v. Scheyer<sup>4</sup> was that one who purchased the exclusive rights in the United States to a trade mark identifying imported merchandise could not prevent the importation and sale by a competitor of identical merchandise bearing the same trade mark, if such merchandise had been legitimately acquired abroad. In denying an action for infringement, the Courts stated that the purpose of the trade marks statute was to protect the public and to prevent anyone from importing goods with trade marks which were not genuine. As long as the goods were genuine no action existed.<sup>5</sup>

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4. 27 F. 18 (SDNY 1886).

5. Fred B. Gretscu Manufacturing Co. v. Shoening et al, 238 F. 780 (2nd Cir., 1916).

Hunyadi Janes Corporation v. Stoeger, 285 F. 861, (2nd Cir., 1922).

In 1922 Congress enacted section 526 of the Tariff Act.<sup>6</sup> That section in conjunction with

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6. 19 USC s. 1526 (1952)

Merchandise Bearing American Trademark

(a) Importation prohibited. It shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trade mark owned by a citizen of, or by a corporation or association created or organized within, the United States, under the provisions of sections 81-109 of Title 15, unless written consent of the owner of such trade mark is produced at the time of making entry.

(b) Seizure and forfeiture. Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

(c) Injunction and damages. Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trade mark and shall be liable for the same damages and profits provided for wrongful use of a trade mark, under the provisions of sections 81-109 of Title 15. 19 U.S.C. s. 1526 (1952).

section 42 of the Lanham Act of 1946<sup>7</sup> protects the trade mark owner in the United States from the importation of articles bearing the same trade mark, regardless of

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7. Lanham Act, s. 42

No article of imported merchandise which shall copy or simulate the name of any domestic manufacture, or manufacturer, or trader, or of any manufacturer or trader located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trade mark registered in accordance with the provisions of this chapter or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States; and, in order to aid the officers of the customs in enforcing this prohibition, any domestic manufacturer or trader, and any foreign manufacturer or trader, who is entitled under the provisions of a treaty, convention, declaration, or agreement between the United States and any foreign country to the advantages afforded by law to citizens of the United States in respect to trade marks and commercial names, may require his name and residence, and the name of the locality in which his goods are manufactured, and a copy of the certificate of registration of his trade mark, issued in accordance with the provisions of this chapter, to be recorded in books which shall be kept for this purpose in the Department of the Treasury, under such regulations as the Secretary of the Treasury shall prescribe, and may furnish to the Department facsimilies of his name, the name of the locality in which his goods are manufactured, or of his registered trade mark, and thereupon the Secretary of the Treasury shall cause one or more copies of the same to be transmitted to each collector or other proper officer of customs. 15 U.S.C. s. 1124 (1952).

whether they are "genuine" goods and the trade mark was validly applied by the foreign producer. The legislative enactment was clearly a response to the early policy established by the Courts. One study of the history of the Amendment<sup>8</sup> clearly demonstrates that "... the sole purpose of the section was to prevent the fraud committed against American citizens who had purchased trademarks from foreigners if the latter then violated their contractual obligations". Prior to the amendment the Courts had specifically instructed plaintiffs that their remedy where the foreign producer of trademarked goods continued to sell to others for export to the U.S. despite an exclusive assignment to an American company of the U.S. trade mark rights was to sue for breach of contract and they could not expect the trade marks legislation to 'shore up' their contract rights.

Not only was the legislative amendment an attempt to protect the trade mark assignees' interests to the exclusion of public or consumer interests, it was to protect American interests to the exclusion of foreign interests. The latter is dramatically illustrated by the fact the Bureau of Customs in administering the section would only exclude "genuine" foreign merchandise if the American trade mark owner was an independent American owned firm. If the owner of the United States trade mark was a foreign firm doing business in the United States or a foreign controlled firm,

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8. Atwood, "Import Restrictions on Trademarked Merchandise: The Role of the United States Bureau of Customs" (1969), 59 T.M.R. 301

the protection was not available.<sup>9</sup>

Government authorities became concerned that the protection offered by Section 42 of the Lanham Act and Section 526 of the Tariff Act would provide the means for international price discrimination. In one such example, the members of an international cartel agreed to employ the same trade mark on all their products and to sell exclusively in the territory in which each possessed the trade mark rights. The United States Supreme Court held that the trade mark rights of the United States registrant could not be employed to justify the cartel.<sup>10</sup> Concern with market segmentation practices through trade mark law ultimately lead to amendments in 1953 and 1972 to the regulations under the Tariff Act.

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9. This interpretation of Section 526 was upheld by the Courts in the perfume cases, the Courts finding that the defendants were parts of a single international enterprise (and thus foreign controlled) and not only could the companies not utilize section 526, but their use of that section was a violation of section 2 of the Sherman Act.

U.S. v. Guerlain Inc. et al, 155 F. Supp. 77; 47 T.M.R. 1087; 114 U.S.P.Q. 223 (SDNY 1957).

Unfortunately the decision did not stand as clear authority because at the Supreme Court level, the Justice Department had the suit dismissed with prejudice against the Government even though the trial Court had ruled in the Government's favour.

10. Timken Roller Bearing v. U.S., 341 U.S. 593.

While section 42 of the Lanham Act and section 526 of the Tariff Act of 1930 make it unlawful to import genuine goods without the consent of the United States registrant, the regulations under the Act indicate that the protection of the above sections is not available if the marks are owned by related companies - that is, if;

- (1) Both the foreign and the US trade mark or trade name are owned by the same person or business entity or,
- (2) The foreign and domestic trade mark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control.<sup>11</sup>

"Common ownership" is defined as individual or aggregate ownership of more than 50 percent of the business entity, while "common control" is defined as "effective control in policy and operations and not necessarily synonymous with common ownership."<sup>12</sup>

In addition, protection is not available and therefore parallel imports cannot be barred, if a foreign producer has been authorized by the American trade mark owner to produce and sell goods abroad bearing the recorded trade mark or trade name. Therefore, where the American trade mark owner and the foreign firms employing the same trade mark are related companies, or where the American firm has licensed a foreign firm to use the mark, merchandise manufactured and/or distributed by the foreign firm bearing the genuine trade mark, may be imported to the United States by anyone in any quantity.

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11. 19 C.F.R. s. 122.21 (c) (1972).

12. 19 C.F.R. s. 133.2 (d) (1972).

## B. England

The basic English law was established in Dunlop Rubber Co. Ltd. v. A.A. Booth and Co. Ltd.<sup>13</sup> which case was a classic parallel import situation. The Dunlop tire business was conducted by different companies in different countries so that the English company owned a number of trade marks in England and the French 'Dunlop' Company in France held trade marks in France which were identical with the English trade marks.<sup>14</sup> The defendant French Company was exporting "Dunlop" tires to England, which for exchange rate reasons were sold at 75% of the price of English Dunlop tires. The plaintiff English company brought an action for infringement seeking an injunction against the practice. The case turned largely on whether an injunction was the proper remedy and the question of infringement was treated by the Court only briefly. After setting out the system by which separate companies in different countries had identical trade marks, the Court stated, "It follows from that, that a French Dunlop tire having upon it the trade marks which are identical with the English trade marks cannot be imported for sale into this country without infringing the English trade marks."<sup>15</sup>

Thus, unlike the early American cases, the English courts adopted the position that any importation not done with the authority of the English trade mark owner was infringement. There was little

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13. (1926), 43 R.P.C. 139.

14. The companies in the various countries were apparently under common ownership and control, i.e., they were "related companies".

15. id at 145.

discussion of whether the goods were "genuine"<sup>16</sup> goods or whether the public was being deceived, as in the American cases. The court did however state that English consumers might believe these were English tires. The English tires contained the inscription "Made in England" whereas the French tires did not. However, there is no indication that had the French tires in addition to the Dunlop trade mark, contained the inscription 'made in France' that an infringement action would not still exist. The basic proposition in this case has never been reversed or varied. A trade mark is a national monopoly and unauthorized importation of goods bearing the same trade mark is prohibited.

### C. Canada

The Canadian courts have interpreted and applied trade marks law in a similar manner to the British courts on the question of infringement by importation. A leading case is Remington Rand Ltd.

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16. This term can be confusing. In most of the American cases, and in the example given above at p. 181, there was one manufacturing source of the goods. Therefore, all of the goods sold whether imported by the trade mark owner in the importing country or by some other person, came from the same production source and presumably had identical qualities. At times, the term "genuine" goods may be applied to any goods properly marked in their country of manufacturing origin with the trade mark in question by the local trade mark owner. At other times, the term may be applied to goods properly marked with the trade mark in their country of manufacturing origin by the local trade mark owner only if that local mark owner is "related", i.e., under the same ownership or control or related by trade mark licensing agreements to the owner of the mark in the country of importation. See below, p.213.

v. Transworld Metal Co. Ltd.<sup>17</sup>. In that case the Canadian trade mark was owned by a subsidiary company of the U.S. parent company. The Canadian mark owner imported electric shavers made by the U.S. parent company marked with the trade mark. The defendant imported the same type of shavers, marked with the trade mark from the U.S. parent company which was the owner of the trade mark in the U.S. The court held that such action by the defendant constituted a strong prima facie case of infringement. The judgment cited with approval the British Dunlop case. In his analysis Thurlow, J. expressed concern that the consumer might be deceived in this situation in that when he purchased a shaver marked with the trade mark imported by the defendant, he might well believe that he would receive the warranty and servicing supplied by the Canadian trade mark owner for the shavers it sold, when in fact he would not.

In order for the Canadian trade mark owner to succeed in excluding imports, it is necessary that it establish that it is a separate legal entity from the possible sources of imported trademarked goods. If one company, for example a particular U.S. incorporated company, is the registered owner of the same trade mark in Canada, the U.S., France, Britain, etc., then that company is the "source" of all goods properly marked by it (through its branch plant operations in those countries) with the trade mark in those countries. Therefore, that U.S. company could not exercise its rights under the registered Canadian trade mark to exclude importation of goods from other countries where that company was the mark

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17. [1960] Ex. C.R. 463

The case did not decide on the issue of infringement but only upheld an injunction issued under section 51 of the Trade Marks Act pending a determination of the issue.

owner and had placed the goods on the market under the trade mark. Such goods coming from those other countries come from the same "source", i.e., the one U.S. incorporated company, as is indicated by the Canadian trade mark. Therefore, there is no deception of the Canadian consumer when he purchases such imported products under the trade mark, no matter who imports them.

The necessity for and difficulties in establishing the owner of the Canadian trade mark as a separate legal entity from the mark owners in other countries which may be sources of imported trademarked goods is demonstrated by Wilkinson Sword (Canada) Ltd. v. Juda<sup>18</sup>. In that case the parent English company had been manufacturing and exporting razor blades and other products to Canada from England for some time. The English company was the registered owner of both English and Canadian trade marks. The English parent company then incorporated a Canadian company, wholly owned by the English parent company, to which the English company assigned its Canadian trade marks. It was apparently the intention of the English company that the Canadian subsidiary would be the sole importer of the razor blades from England.<sup>19</sup> The defendant imported razor blades marked with the trade marks from England, which blades were the products of the English company.<sup>20</sup>

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18. [1968] 2 Ex. C.R. 137; 51 C.P.R. 55; 34 Fox Pat. C. 77. See also Magder v. Breck's Sporting Goods Co. Ltd. (1973), 10 C.P.R. (2d) 28 (F.C.A.).

19. In fact, the Canadian subsidiary began to import blades in a semi-finished state and completed the manufacture of them in Canada before sale.

20. Which, it seems fair to assume, were identical or nearly identical in qualities to those blades imported and sold by the Canadian subsidiary.

In pressing an infringement action against the defendant importer, the plaintiff Canadian subsidiary, and the defendant agreed to argue the case on the basis that the Canadian subsidiary company and the English parent company were not the same "source" for trade mark purposes. If this were not taken to be the case, i.e., if the English and Canadian companies were regarded as the same entity for trade mark purposes, then importation from the English company could not be infringement of the Canadian trade mark rights.<sup>21</sup> However, as noted in the discussion of this case in the Chapter on Assignment, in arguing the case on the basis that the Canadian and English companies were different entities and that there had been an assignment of the mark from the English company to the Canadian company, the plaintiff's registration of the mark was found invalid in that the assignment had caused the mark to lose its distinctiveness.

#### D. European Countries

In Germany<sup>22</sup>, Switzerland<sup>23</sup>, Holland<sup>24</sup>, France<sup>25</sup>, and Austria<sup>26</sup> the courts have denied

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21. See footnote 2, 34 Fox P.C. at p. 83.
  22. Decision of January 22, 1964 in the Maja case, 1964 GRUR 372 (German Federal Supreme Court) decision of July 14, 1964 in the Revlon case, 1965 GRUR Int. 204.
  23. Decision of October 17, 1967, in the Polycor case, 1968 GRUR Int. 22.
  24. Grundig case, 1957 GRUR Ausl. 259.
  25. Decision of April 17, 1969 in the Korting-Radio case, 1970 RIPIA, 5.
  26. Decision of November 30, 1970 in Agfa-Gevaert Gmbh v. Schark, 1971 GRUR Int 92, 11C2/1971, 220 with comment by Beier.

claims of trade mark infringement against parallel importers.<sup>27</sup> There are a number of principles behind this position:

- (a) "Exhaustion" of trade mark rights: the trade mark right is exercised at the time of initial circulation of goods and is thereby exhausted. Once trademarked goods have been marketed, subsequent distribution should not be impeded by trade mark actions. The theory of exhaustion is based upon an objective fact, namely, the initial marketing of the goods and not upon the subjective intent of the trade mark owner. All countries, including Canada invariably apply such a theory on a purely domestic level, i.e., within the country. Its application on an international scale is more difficult. However, it is argued that where the trade mark owner in two countries is the "same",<sup>28</sup> then distribution of goods under the trade mark "exhausts" the trade mark rights in both countries. Therefore importation of such goods may freely take

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27. See; Beier, "Territoriality of Trademark Law and International Trade" (1970), Int. Rev. Ind. Prop. and Copyright Law 48.

Wertheimer, "The Principle of Territoriality in the Trademark Law of Common Market Countries" 58 T.M.R. 230.

Castrodale, "The Current Reconsideration in Europe of Trademark Protection Available Against the Importation of Genuine Goods" 46 JPOS 502 (1964).

28. Defining the same entity may involve reference to ownership and control relationships among companies or to licensing relationships.

place from one country to another.<sup>29</sup>

- (b) The function of a trade mark is to identify the origin of goods. The essential question in infringement is whether the use of trade mark misleads the public as to the origin of the goods. The origin signified by a trade mark to the public may be a group of related companies in a variety of countries. Thus, if the public in the importing country is of the opinion that the trade mark indicates a group of related companies, then parallel importation of these goods put into circulation by one member of the group, cannot be prevented by an infringement action instituted by a related company. If

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29. A similar approach appears to have developed in British and Canadian patent law. With the sale of a patented article by a patentee, the purchaser is said to get an implied licence to exercise certain rights that otherwise are exclusively those of the patentee, e.g., to use or vend the article. See Patent Act, s. 46 for patentee's exclusive right to sell a patented article. This includes the right to import into Canada. Therefore, if the Canadian patentee sells a patented article in a foreign country, the purchaser there may acquire an "implied licence" to exercise some of the Canadian patentee's rights in relation to that article including the right to import into Canada. See Betts v. Wilmott (1871), L.R. 6 Ch. 239.

on this test, (which assumes consumers are increasingly aware of the existence of 'world marks' and multinational corporations which may produce and sell in any one of a number of countries) the consumer is not deceived, there is no infringement. It is immaterial whether the trade mark rights for the goods in a particular country have been assigned to another company in another country.

This development in Europe resembles the early American position, that the essential question is consumer deception. That is, the consumer is not deceived if (a) the goods are "genuine" (identical to those sold by the trade mark owner in the importing country) and (b) the mark is understood by the public as indicating the whole multinational organization (e.g. Phillips, Grundig, or Revlon) and the public does not distinguish one member of the group from another.

To restate the latter proposition: the European position is that there should be no bar to parallel importation if there is no infringement of the functions of a trade mark. The function of a trademark is to designate origin and thereby to protect the expectations of quality the public may relate to the origin. Where related companies employ identical trade marks in selling identical goods in different countries, the trade mark does not serve to distinguish the goods of the domestic company from those of the foreign company. Instead, the trade marks distinguish the goods of the group of companies from those of a different origin. In the result, the function of distinguishing origin is not infringed by parallel imports of goods originating from another member of the group. There is no deception as to origin and there is no likelihood of confusion.

The early American position was in reality predicated only on the rationale advanced in paragraph (a) above and the European jurisprudence has developed this concept within the theory of trade marks. It may be predictable that this development regarding the meaning of origin should be first instituted in Europe as European countries are much more integrated and it very quickly became apparent that to restrict origin to national producing entities was nothing more than a legal fiction. It is submitted that presently, even in North America, consumers now identify the origin with an international conglomerate and do not attempt even if they could, to differentiate between national entities.

A leading case in this line of European jurisprudence is the Maja<sup>30</sup> case decided by the German Supreme Court in 1964. The firm, Maja, in Barcelona was the holder of various trade marks registered in Spain as well as in Germany. Maja had assigned its German trade mark rights to the plaintiff company which was to be the exclusive importer and distributor of "Maja" products in Germany and was to assert any claims arising from infringements of the German trade marks. Another firm, the defendants in the case, purchased soap products manufactured and trademarked by the owner of the Spanish trade mark and resold those products in Germany at a price below that at which the product was being sold in Germany. The plaintiff, assignee of the Germany trade mark rights, alleged infringement against the importer. The court rejected this claim, holding that once the trademarked goods were placed on the market the trade mark rights were exhausted and that this doctrine of exhaustion was not limited territorially. Thus the mark owner, or the party to which he had assigned the mark, could not prohibit import of unaltered goods originating with the original trade mark owner into the country through

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30. See above, p. 195.

the assignee exercising his German trade mark rights. In explaining its decision the court noted that trade marks had legal protection through the infringement remedy for the purpose of protecting their function as indicators of origin and their guarantee function in relation to the goods with which the marks were used. On the facts of this case there was no deception as to origin as the same company stood behind the manufacture of the products distributed by the German mark owner or the defendant importer.

### III. The Policy Rationale

#### A. Introduction

There are two basic policy rationales for removing trade mark barriers to importation. They are based first, on the function and meaning of trade marks and second, on economic factors concerning international trade policies.

#### B. Function of Trade Marks

In the analysis presented in Chapter One it was suggested that the function of a trade mark is to indicate to consumers that there is, at any given time, only one legal entity which can lawfully control the use of the mark. In the light of that analysis of the function of marks, a definition of "trade mark" was suggested which referred to use of the mark by the owner or "persons related" to the owner of the mark. "Persons related" was defined to include companies related by stock ownership and control, and persons related by trade mark licensing arrangements which featured the certain elements of control by the licensor over the licensees.<sup>31</sup>

The above description of the function of a trade mark is appropriate to international as well as a purely national use of marks. First, many consumers are aware of so-called "multi-

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31. See above, p. 46.

national" companies, i.e., a group of "related companies" in different countries or one company with branch operations in many different countries. In fact, many companies are encouraging this kind of international identification by consumers through the adoption of trade marks or trade names that do not imply any reference to a particular country. One study estimated that over half of the 500 largest firms in the United States have begun new corporate trade mark identification programmes, many to reflect their expanding global activities.

However, whether the consumer is actually aware of the international ownership or licensing links in relation to a particular trade mark is not important. We noted in Chapter One that consumers frequently do not know the identity or location of the owner of the trade mark associated with products they buy.<sup>32</sup> The critical factor for the consumer interest is that there be only one entity with the power to control the use of the mark and thus the incentive to ensure that the products sold in association with the mark satisfy consumers. The consumer frequently does not know and would not care whether that power and incentive to control the use of the mark existed on a purely national or on an international scale. Consequently, when an imported product "originates"<sup>33</sup> in another country with a "person related" to the Canadian trade mark owner there is no misrepresentation to the consumer. There is also no infringement of the trade mark owner's properly protected interests as the imported product does originate with the mark owner or a person related to him. The trade mark owner thus receives a financial return on the goodwill he has invested

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32. See above, p. 3.

33. Where "originate" means that the person related has authorized the use of the mark in association with the products.

in the mark through his participation in the profits the related person makes on the sale of the trademarked product for importation into Canada.<sup>34</sup>

The above analysis should not remain completely unqualified. Certain considerations are introduced because trade marks rights are held under separate national ownership and the trademarked goods cross international borders. In particular, a mark owner may sell trademarked products of particular characteristics in one national market and of different characteristics in another national market. Therefore, it may be harmful to the consumers' expectations of a probable consistency of product quality for particular trade marks, and it may consequently harm the mark owner's interest in building the goodwill associated with his mark, to permit free importation of products from related persons to the Canadian mark owner in every case without exception. However, these exceptions are considered later in the paper.<sup>35</sup>

#### C. Economic Factors - International Trade

The second rationale for eliminating trade mark barriers to importation is the belief in the benefits which flow from free trade, increased competition and a more flexible economy.<sup>36</sup> In per-

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34. This profit may come in the form of licensing fees or participation as a shareholder in a related company.

35. See below, p. 225.

36. This principally, is the argument put forth by the Economic Council. ECC Report, pp. 196, 200-203, 205-206.

mitting the mark owner to prohibit the importation of trademarked products the courts of the United States and England have recognized that the upholding of infringement actions in these cases constituted an international trade barrier. In the Dunlop<sup>37</sup> case in England the court saw the purpose of the infringement action as protecting the interests of the English manufacturing sector. Such decisions may be regarded as illustrative of the phenomenon observed by the Economic Council, that historically much of the concern in trade marks law has been with the interests of trade mark owners and users with too little attention being paid to the real impact on consumers.<sup>38</sup>

It might be argued that before any trade mark barriers to importation are removed, it must be clearly demonstrated on the basis of empirical evidence that the benefits to be achieved will exceed any costs. An attempt to gather and analyse enough data to present an "iron-clad" case for eliminating trade mark import barriers would prove very costly and perhaps fruitless as the gathering and study of such information can have serious practical limitations.<sup>39</sup> Furthermore, policy makers in the trade marks area must adopt now the most reasonable trade marks policy on the basis of the best available data and analysis. Such policies will always be subject to revision in the light of any better information and better

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37. See above at note 13.

38. ECC Report, pp. 190-191. See above, p.2.

39. For example, critical information may be unavailable and not obtainable by any practicable method.

available expertise obtained later.<sup>40</sup> On the basis of the available information and analysis there appears to be a persuasive case for eliminating or greatly reducing the barriers to importation.

One of the arguments which may be presented against the reduction of such barriers is that it will reduce the level of manufacturing and business activity in Canada with resulting increased unemployment and other undesirable effects. It may be argued that owners of Canadian trade marks who are now able to exercise their trade mark rights to exclude foreign competition will be put out of business by importation of products from lower cost<sup>41</sup> sources. However, there can be considerable doubt that such occurrences will be very extensive. At the point of the original acquisition of the trade mark rights by the Canadian trade mark owner, a decision had to be made whether to supply the Canadian market through importation or domestic manufacture.<sup>42</sup> If the foreign source

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40. In this context see the recommendations made above for the collection of data concerning the use of marks by persons related to trade mark owners, and for the establishment of an intellectual property policy analysis group. See above, p.115 and p.179 , respectively.
  41. The lower costs may reflect advantages of the foreign source such as greater scale economies, lower labour or material costs.
  42. The same argument applies to the decision as to whether to distribute in Canada a product through a Canadian-based enterprise or whether to distribute through a foreign based firm, e.g., to serve the U.S. and Canadian markets together from a distribution network based in the U.S.

was clearly the lower cost source, then the rational, profit maximizing decision would have been to serve the Canadian market through importation rather than establishing a domestic manufacturing plant.<sup>43</sup> Therefore, if the owners of Canadian trade mark rights have been acting rationally, there should be few cases of Canadian manufacturing or distribution operations being sheltered against foreign competition by the exercise of Canadian trade mark rights, as such activity does not maximize returns for the owner of the trade mark rights.

To the extent that Canadian enterprises do exist contrary to the above economic rationale, the policy trade-off is between the elimination of such uneconomic enterprises and lower prices for Canadian consumers. To the argument that the trade mark importation barriers should be retained despite the costs in higher consumer prices in order to preserve Canadian enterprises and employment, the

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43. In practice, there will be some such 'sheltered' enterprises. The decision to establish a Canadian operation may have been based on non-economic factors. The establishment of a Canadian enterprise may have been an 'error' - the necessary data may not have been available to accurately compare costs. There may have been changes in cost factors since the establishment of the Canadian enterprise which make the Canadian operation an uneconomic competitor at some point after its establishment. In the latter two cases the strictly economic decision would be to abandon the Canadian operation, but again, there may be non-economic considerations which lead to maintaining the Canadian operation.

response is that the trade mark law is not the appropriate policy instrument for effecting such trade-offs.

Tariff policy<sup>44</sup> is the traditional vehicle for protecting domestic manufacturing and employment. It has advantages over the "hidden" barrier to trade in trade mark law. It may be that Canadians are willing to pay higher prices to increase domestic employment and manufacturing. However we should know the cost of such protection in order that we may assess whether the benefits warrant the costs incurred. The costs in the tariff structure are far more readily ascertainable than the hidden costs inherent in the trade mark barrier. Tariffs are a more flexible instrument than the trade mark barrier. First, tariffs can be used on a selective basis. If, for example, the removal of the trade mark import restrictions did result in unemployment in a particular industry, tariffs could be introduced on the basis of concrete evidence to assist that industry only. Second, the level of tariff protection can be set at the minimum level necessary to achieve the desired result, thus minimizing the costs in terms of increased prices. Further, tariffs can be reduced to promote increased competition and to lower prices as domestic industry becomes more efficient. The "hidden tariff" in trade mark law is on the other hand permanent and a complete prohibition of importation. Finally, the trade mark import barrier appears to be too erratic and unreliable a device for making a contribution to a rational policy of promoting domestic manufacturing and employment. The trade mark barrier will have an impact only where an

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44. Included within this term here are "negative tariffs" such as subsidies to manufacturers and other forms of visible, direct assistance.

international trade mark<sup>45</sup> is a significant marketing factor. Further, it will be used to protect domestic manufacturing only when the trade mark owner decides to so use it.<sup>46</sup> Such decisions may not be the best for developing a Canadian industrial strategy. In general, since the costs of such decisions are borne by the Canadian public in the form of increased prices, the decisions should be publicly made and debated as is the case with developments in tariff policy.<sup>47</sup>

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45. It should be noted that access to know-how, technological data, etc. are frequently tied to access to trade mark rights.
  46. As noted, on economic theory, such decisions are apparently based on non-economic reasons.
  47. Comments concerning the flexibility of tariff policy must be qualified to some extent in the light of Canada's international commitments concerning tariffs, e.g., G.A.T.T. It might be argued that in the context of such commitments tariffs are relatively inflexible. Further, it might be argued that other countries may use such non-tariff barriers against Canada and that such barriers should at least be retained to be used in bargaining with other nations concerning the reduction of trade barriers. In this regard, see the comments on foreign law above, pp. 185 - 204. One response to the "inflexibility of tariffs" argument is that subsidies might be more easily used so as not to contravene our international commitments.

Another objection to the elimination of the trade mark barrier to importation may be that whatever its theoretical economic benefits in terms of lower prices, those benefits will not, in fact, be achieved. It may be suggested that international price discrimination can be achieved by isolating the Canadian market from the importation of the trademarked products in other ways. The trade mark owner in the foreign country which could be a source of lower cost imported products might refuse to sell to anyone in Canada except the owner of the Canadian trade mark. Also, the foreign mark owner may sell to all persons outside Canada on the condition that such persons not export the products to Canada nor sell to anyone else who will export the products to Canada. These practices were documented in a study of the agricultural machinery industry.<sup>48</sup>

While trade mark owners are aware of this option, they may not be eager to utilize it because the foreign trade mark owner might be exposed to liability under the antitrust laws in the jurisdiction from which such restricted sales are made.<sup>49</sup> As well, a Canadian participant in such restrictive arrangements could be reached under Canadian competition law.<sup>50</sup>

While it is not the function of trade marks law to deal with the merits of exclusive dealership agreements or other restrictive trade agreements, it is important that the trade marks law not shield such practices from the competition statutes. At

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48. Royal Commission on Farm Machinery, Special Report on Prices, (Ottawa, 1969), p. 80-81.

49. This is particularly so under American anti-trust law. But see the Farm Machinery report, above, note 48.

50. See Bill C-227, above p. 175 , s. 29.

present such a shield does exist as the existing trade marks statute empowers the owner of a Canadian trade mark to bar importation. Section 2 of the Combines Investigation Act provides that a "monopoly" shall not be deemed to exist for the purpose of that Act, "... by reason only of the exercise of any right or enjoyment of any interest derived under the Patent Act, or any other Act of the Parliament of Canada." This renders inoperable the restrictive agreement provisions in the Combines Act. Consequently, the law of trade marks should be amended so as to exclude the power to bar such importation from the proper scope of the "monopoly" acquired by the ownership of a trade mark.

#### IV. Recommendations of Other Trade Mark Law Studies

##### A. 1953 Committee

The 1953 Committee recommended that the Act preserve the jurisdiction of the Exchequer Court to make orders preventing the importation of goods bearing a registered trade mark or a trade name contrary to the provisions of the Act.<sup>51</sup> However, the Committee did not discuss in what kinds of circumstances importation should be contrary to the statute. The Committee stated only that, "... much difficulty has been experienced in the past by reason of the importation into Canada from abroad of goods marked with a registered trade mark owned by a person who is not responsible for their importation."<sup>52</sup>

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51. 1953 Committee, Fox, 2nd. Ed., p. 1181. Act, s. 52.

52. Ibid.

## B. Economic Council of Canada

The Economic Council recommended that certain forms of importation be permitted.

The Economic Council was concerned that trade marks can be used as a "non-tariff barrier to trade both domestically and internationally" without any public judgment as to the desirability of such restrictions. The Economic Council stated more generally:

"The potential for trade mark owners to impede both the domestic and international flows of trade and to engage in other forms of restrictive trade practices under the umbrella of their trade mark imposes in many instances unnecessary cost in terms of adverse affects on efficient resource allocation within the Canadian economy".<sup>53</sup>

In arriving at this position, the Economic Council relied upon the evidence generated in public inquiries into the pricing of both drugs<sup>54</sup> and farm machinery.<sup>55</sup> This evidence indicated that there were reasonable grounds for believing that trade marks were being employed as a means of segregating national markets and promoting international price discrimination.

The Economic Council concluded that the right to restrict imports of goods bearing a trade mark either identical or sufficiently similar to a mark in use in Canada to cause confusion should be retained, but with two significant exceptions:

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53. ECC Report, p. 205.

54. Special Committee on Drug Costs and Prices, Minutes of Proceedings and Evidence, No. 34, Ottawa, Queen's Printer, 1967.

55. The Royal Commission on Farm Machinery, Special Report on Prices, Ottawa, Queen's Printer, 1969.

1. "No owner of a Canadian trade mark should be able to allege that the importation of goods produced by a related company -- that is 'members of a group of two or more companies one of which directly or indirectly owns or controls a majority of the issued voting stock of the others' - constitutes infringement of his mark."
2. " ... when owners of Canadian marks are linked, either directly or indirectly, to unrelated companies through licensing agreements, the Canadian owner of the mark should not be allowed to restrict the importation of the goods produced by the other company."<sup>56</sup>

The policy proposed by the ECC is similar to that existing in European and American law. A domestic trade mark owner who is not a person related to the owner of that trade mark in another jurisdiction may block the importation of goods bearing the trade mark from the other jurisdiction, but where the domestic owner of the trade mark is related to the foreign owner of the mark, the domestic trade mark owner cannot block the importation.

## V. Recommendations

### A. Importation Permitted

#### 1. Introduction

It is desirable to prevent trade marks from being used as instruments to achieve international price discrimination against Canadian

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<sup>56</sup>. ECC Report, p. 205.

consumers, and to give full effect to the proper meaning and function of trade marks in the international context. Consequently, it is recommended that importation of trademarked products be permitted where the products originate with "persons related" to the owner of the Canadian trade mark.

It is proposed that the definition of "persons related" for this purpose be the same as that presented in Chapter One for the definition of "trade mark". This is logical as that definition was developed to reflect the function of trade marks and one of the basic reasons for permitting importation is that it is consistent with the function and meaning of trade marks in an international context.

The proposed definition of "related persons" is reproduced here:

"s. 2A For the purposes of this Act a person shall be related to another person or persons as herein provided:

(a) persons are related if they are companies that are members of a group of two or more companies one of which, directly or indirectly, owns or controls otherwise than by way of security only shares of the other companies carrying more than 50 percent of the votes for the election of the directors of those companies, and such voting rights are sufficient, if exercised, to elect a majority of the directors of the other companies; and

(b) persons are related where they are parties to any licensing agreement or arrangement pursuant to Section 49 [as amended] as licensor or licensee, whereby the licensor as the owner of a trade mark authorizes or permits another person as licensee to use such trade mark for any period of time, definite or indefinite, with or without consideration in which the owner of the trade mark or a person related to him under paragraph (a) of this subsection retains any right of reversion or other interest in the trade mark rights so licensed.

(c) where one person is related to another under either paragraph (a) or (b) in this subsection, that person is related to every other person to which that other person is related."

## 2. Related Companies

The definition is in terms of direct or indirect control of more than 50 per cent of the voting shares of the companies. Through use of the terms "directly or indirectly" it is intended to include all of the various complex forms that international corporate enterprises can assume. For example, if A Company owns 51 per cent of the voting shares of B Company, C Company and D Company; and if B Company, C Company and D Company each own 20 per cent of the shares of E Company; the result is that A Company indirectly has control over 60 per cent of the shares of E Company and therefore A Company is related to E Company.

### 3. Licensing

The second part of the definition of related persons refers to licensing agreements pursuant to Section 49 of the Act. At least two problems arise with this definition here. First, licensing of foreign trade marks will not be subject to the requirements of s. 49 per se. However, we could still apply to the foreign licences the criteria for a valid licence set out in the proposed s. 49 which are: i) that the licensing agreement provide for effective control by the licensor over the licensee's use of the mark and, ii) that the control actually be exercised. However, the second problem is that such application of the control requirements is not appropriate to the importation problem as is explained below.<sup>57</sup>

As is explained below,<sup>58</sup> where the owner of the Canadian trade mark is related to the owner or user of the foreign mark only through an arm's-length assignment of the mark from one to the other, the Canadian mark owner and the foreign user of the mark are not deemed to be related for the purposes of eliminating the importation barrier. Therefore, the definition of licensing for defining "related persons" must be so drafted that arrangements which are essentially licensing agreements cannot escape the definition of licensing by being characterized as "assignments". For example, an "assignment" in which there is a provision by which the mark must be re-assigned to the assignor on demand would not be a genuine assignment and would be a licence under the proposed Act. In the language of the proposed s. 2A(b) this

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57. See below, p. 215.

58. See below, p. 221.

would be a licence for an "indefinite" period of time in which the owner ("assignor") of the mark had retained a "right of reversion or other interest" in the trade mark, i.e., the right to demand a reassignment of the mark.

The phrase "the trade mark rights so licensed" is used in the proposed s. 2A(b) to prevent cases which are truly assignments from being termed licences under this section. For example, A Company may be the registered owner of the trade mark in Canada and the U.S. and it may then assign the Canadian mark to B Company which is not related to A Company in any way. As A Company has retained its U.S. trade mark it could be regarded as retaining "any other interest" in the trade mark. Therefore, the section must refer to "any other interest in the trade mark rights so licensed", i.e., in the example, in the Canadian trade mark rights.

#### 4. Control by the Mark Owner as a Requirement for "Related Persons"

In Chapter One consideration was given to requiring in the definition of "related companies", [the proposed s. 2A(a)], in addition to the requisite share ownership, actual control by the mark owner over the use of the trade mark by the related company. Such a control requirement was rejected as being unnecessary and difficult to administer in the related companies case.<sup>59</sup> However, in the licensing situation actual control by the owner of the mark over the use of the mark by the licensee was made a prerequisite to a valid licence under the proposed s. 49 which governs the licences in the proposed definition of "related persons" in s. 2A(b).<sup>60</sup>

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59. See above, p. 47.

60. See above, p. 47.

A fundamental difference of approach to the control question, depending on the circumstances in which it arises, should be noted.<sup>61</sup> The question may be one of granting registration of a mark on the basis of the use of the mark by a person related to the applicant; or the issue may be one of expungement of the registration of the mark on the basis of loss of distinctiveness arising from improper use of the mark by a person related, or alleged to be related, to the mark owner. In such cases, for the protection of the public or consumer interest, if there can be said to be an initial presumption of fact on the issue of adequate control, that presumption is that the requisite control is not exercised. It must be demonstrated that the control is actually exercised, in order to protect the consumer interest in the function of trade marks in indicating "origin".

However, in the importation situation the primary danger to the consumer is not in the preservation of the function of a trade mark in indicating "origin" (which is an important, but secondary consideration in this context), but in preventing international price discrimination and the anti-competitive restriction of importation. Thus, any initial presumption concerning the exercise of control is the opposite to the above cases. That is, the presumption is that the control is exercised and therefore importation should be permitted.

The danger of price discrimination is another reason for not having a specific control requirement in the case of "related companies" under the proposed s. 2A(a). This approach is desirable in the importation context as it is likely that the most dramatic examples of international price discrimination occur in the related companies cases. A would-be importer of trademarked products from a

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61. This issue is discussed in part in the Chapter on Licensing above, p. 104.

company related to the Canadian trade mark owner should not have to prove that control over the use of the mark was actually being exercised between the related companies in order to be permitted to import. Such a requirement would put an extremely difficult burden of proof on the importer and be a serious impediment to importation. As well, it should not be possible as a general rule, for the Canadian mark owner to introduce evidence of the lack of control exercised in order to refute the status of "related company".<sup>62</sup> If such evidence were introduced in a domestic licensing context, the result might well be the invalidity of the mark and its registration on the grounds of loss of distinctiveness. However, that problem for mark owners would not exist on an international level as distinctiveness is a national concept in our law.

The licensing case may raise more difficult problems. In the proposed legislation there must be the actual exercise of control by the mark owner over the use of the mark by the licensee in order to have a valid licensing arrangement under the proposed ss. 49 and 2A(b). The problem which must be faced here is what onus, if any, should be on a would-be importer from a foreign source related to the Canadian mark owner through a licensing agreement to show that the control over the use of the mark as required by s. 49 is actually being exercised by the mark owner

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62. See below, p. 231, for a discussion of a proposed statutory provision whereby the Canadian mark owner may apply to the Registrar for an order placing restrictions on importation in cases where the public interest would be harmed by such importation.

over the licensee. It is submitted that it should be sufficient that the would-be importer show that a licensing agreement exists at which point the onus should shift to the Canadian trade mark owner to demonstrate lack of control to the detriment of the Canadian public if he wishes to prevent importation from that particular source.<sup>63</sup>

#### 5. Suggested Statutory Provisions

The purposes discussed above should be achieved through statutory changes of the following nature:

- s. 20A. (1). The right of the owner of a registered or unregistered trade mark to its exclusive use shall be deemed not to be infringed by a person who imports, sells, distributes or advertises goods in association with the trade mark or a confusing trade mark where such goods are or have been imported into Canada and the trade mark was used in association with such goods by a person related to the registered owner or owner of such trade mark.
- s. 20A. (2). For the purposes of this Section "person related" shall have the meaning provided in s. 2A except that in any legal proceedings a licensing agreement or arrangement which otherwise complies with s. 2A (b) shall be deemed to be pursuant to Section 49.

The power to import under such a provision should apply to both registered and unregistered trade marks. The provision should

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63. See note 62, above.

permit not merely importation but should also extend to sale, distribution and advertising of the imported goods.<sup>64</sup>

6. Deemed "Persons Related" Under Proposed Section 2A(c)

The relationship between the person which places the products on a foreign market under the trade mark, from which the importation might take place, and the owner of the Canadian trade mark may take a number of forms. To recapitulate the related companies and licensing relationships, some aspects of which were discussed above:

- (a) The Canadian mark owner and the foreign mark owner may be "related companies", i.e., linked by share ownership and control. For example, the Canadian mark owner may be a subsidiary company of the foreign mark owner.<sup>65</sup>

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64. No amendment should be necessary to s. 52 as that section is remedial only, and does not apply unless there is importation "contrary to this Act" [s. 52(1)]. Importation falling within the proposed s. 20A will not be contrary to the Act. Some consideration should be given as to whether it is appropriate that such orders be granted ex parte as provided in s. 52(5) in the light of the relaxation of the import restrictions that would occur from adopting the recommendations made here.

65. Proposed s. 2A(a). See above, p. 47 and p. 213.

- (b) The Canadian mark owner and the foreign mark owner may be linked by licensing agreements, e.g., the Canadian owner may be the licensee or licensor of the foreign mark owner or user. It should be noted that under the existing law, where the owner of the Canadian trade mark and the owner of the trade mark in the country in which the trade mark is applied to the products to be imported into Canada are the same, the Canadian mark owner cannot use his Canadian trade mark rights to exclude such importation.<sup>66</sup>

However, the Canadian mark owner and the foreign mark owner or user may be linked through some combination of the two modes of relationship set out in (a) and (b), immediately above. An example of this type of more complex relationship follows:

- 1) U. Company is the registered owner of the trade mark in the United States.
- 2) C. Company is a wholly owned Canadian subsidiary corporation of U. Company.

C. Company is the registered owner of the Canadian trade mark.

- 3) U. Company is the registered owner of the trade mark in Japan.

J. Company is a licensee to use the trade mark under the Japanese registration.

No part of J. Company's shares are owned by U. Company (Not "related companies".)

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66. Proposed s. 2A(b). See above, p. 47 and p.214.

The purpose and result of the proposed s. 2A(c)<sup>67</sup> and the other provisions of s. 2A:

- 1) C. Company and U. Company are related persons. Therefore, importation may freely take place of products placed on the U.S. market under the mark by U. Company [s. 2A(a)].
- 2) U. Company and J. Company are related persons through their licensing agreement. Since U. Company is related to J. Company and C. Company is related to U. Company, then C. Company is deemed to be related to J. Company. Consequently importation of products placed on the Japanese market under the mark by J. Company may be freely imported into Canada. [s. 2A(b) and s. 2A(c)].

B. Canadian Mark Owner Related to Foreign Source by Assignment Only

In some cases the only relationship between the owner of the Canadian trade mark and the person who places the goods on the foreign market under the trade mark may be that the Canadian mark owner is an assignee of the Canadian mark or an assignor of the foreign mark. In this case there is no control over the use of the mark by the Canadian mark owner, exercised by the foreign 'source' or vice versa. Consequently, on the analysis of the function of marks presented in Chapter One, the Canadian and the foreign entity do not constitute a single origin.

Since there is no centralized control over the use of the marks in Canada and in the foreign country, there is a greater probability that the products sold by the Canadian mark owner will not be identical to those sold by the foreign mark owner. As well, since the Canadian and foreign

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67. See above, p. 47.

sources of products are not financially linked, there is less justice in this case in the argument considered below,<sup>68</sup> that any investment of the user of the Canadian mark in any servicing network or marketing network, sales promotion and advertising does not merit protection through the importation barrier.

The exclusion of the case of relationship solely through assignment may result in excluding some cases from the removal of the importation barrier that, at least in the first instance, may appear to be properly included. The classic example would be the case in which the product sold under the particular trade mark is manufactured by one foreign producer. The product is distributed in other countries, including Canada, through exclusive distributors. Each of these distributors has been assigned the national trade mark rights to enforce national monopolies in distribution. In such a case the public may believe the mark indicates the foreign manufacturer or at least the whole group of distributors plus the manufacturer.<sup>69</sup>

A related case would be one in which the owner of an internationally known trade mark wished to reap the profits of international price discrimination. If the amendments to the law proposed here were adopted it could not take those profits by licensing its Canadian mark or assigning it to a related company. However, it might assign the Canadian mark to an independent owner, the price charged the assignee reflecting in large measure the monopoly profits to be made by the assignee as he will be able to exclude competition in the trademarked products through importation.

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68. See below, p. 228.

69. Depending on the particular circumstances, it is possible there would be distinctiveness problems in such cases.

However, despite the problems noted above, it is not recommended that the definition of "related person" be drafted to include some or all cases of assignment. First, many owners of international marks will not consider assigning their Canadian trade mark rights. Such mark owners do not want to run the risk of losing all control over their marks in Canada as may well happen when the owner of the Canadian mark is an unrelated assignee.<sup>70</sup> Second, once the mark is owned by an independent assignee, that assignee may begin to adopt an independent course adapted to Canadian market conditions. The result may be that the Canadian mark owner will modify imported products and will begin to produce his own products under the mark. As well, note the point made above concerning the possibilities for recoupment of Canadian service network or marketing network costs when incurred by an assignee as opposed to a "related person".<sup>71</sup>

To the extent that the problem cases in the assignment situation are perceived as needing remedy, reference should be had to the Combines Investigation Act and competition policy. Since permitting importation from sources not under common control with the Canadian mark owner appears to be inconsistent with the basic function of a trade mark as presented here, it is submitted that the remedies for such abuses as do occur do not properly belong in the Trade Marks Act.

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70. Recall the broad definition of "licensing" in proposed s. 2A(b) which would include "assignments" which in fact were licensing agreements in which the mark owner retained an interest in the Canadian mark rights "assigned".

71. See below at note 79.

### C. Unrelated Persons

It should be noted that in no case should importation be permitted from a completely unrelated<sup>72</sup> foreign 'source'. The extreme example might be the unscrupulous entrepreneur who registers the trade mark of a famous international company in some small country in which the international firm has not bothered to register. That entrepreneur then might attempt to export sub-standard goods under the famous mark to Canada where the international company is the registered owner of the mark and carries on an extensive business. Clearly, to tolerate such importation would not be in the interests of the Canadian consumer, would be unfair to the Canadian mark owner and would destroy the proper function of the mark in the Canadian market place.

### D. Filing of Related Persons Information

Reference should be made again to the proposed requirement that data be filed concerning the use of registered<sup>73</sup> trade marks<sup>74</sup>. Such data may be useful to persons who import trademarked products to establish in legal proceedings that the foreign source is related to the Canadian mark owner within the meaning of the proposed

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72. Not even through assignment.

73. To make the data filing requirement more useful in the importation context, consideration could be given to requiring the filing of such data for unregistered marks for which there is a sales volume of \$1 Million or more.

74. See above, p. 115.

E. Exceptions to Permitted Importation

1. Introduction

It may be argued that there could be cases in which importation of trademarked goods would be unfair to trade mark owners and not in the consumer interest. There appear to be three types of cases in which such arguments might be made:

- i) The imported goods have significantly different qualities from the goods sold under the authority of the Canadian mark owner in Canada.
- ii) The importer is not bearing any part of the cost involved in establishing a servicing network in Canada and is not providing the service, e.g., attached to product 'warranty', that Canadian consumers have come to expect for goods sold in relation to the trade mark.

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75. Data is required to be filed pursuant to s. 133.2 of the Regulations under the Tariff Act of 1930 in the U.S. See above, p. 186.

Section 133.2 of the Regulations provides that an application to record one or more trade marks shall include:

"133.2(c) The name and principal business address of each foreign person or business entity authorized or licensed to use the trademark and a statement as to the use authorized.

132.2(d) The identity of any parent or subsidiary company or other foreign company under common ownership or control which uses the trademark abroad."

- iii) The importer is taking a "free ride" on the advertising and other marketing expenditures of the Canadian trade mark owner or his authorized mark user.

## 2. Product Quality Differences

There may be cases in which the characteristics of the goods imported under the trade mark are very different from the qualities of the goods sold by the Canadian mark owner or his authorized mark user. For example:

- i) The Canadian mark owner may manufacture the product in Canada and give the goods qualities to meet specific Canadian tastes, or requirements, e.g., those dictated by the Canadian climate. The foreign goods may be designed to meet significantly different tastes or needs.
- ii) The foreign producer may make several versions of the same type of product under the same trade mark. The Canadian mark owner may have been importing only one version for sale in Canada, again perhaps reflecting differences in Canadian tastes or needs. The importer may bring in a version of the product not previously sold in Canada under the mark with significant quality differences from the version usually sold here.

Such product differences may be harmful to, or deceptive of the Canadian consumer in some cases. However, the quality differences

would have to be of a significant nature in order to be harmful to consumers.<sup>76</sup>

### 3. Servicing

The price the importer of the goods must pay and the price he in turn charges the Canadian public for the goods may, in some cases, not reflect significant costs in establishing a Canadian product servicing network. Repair depots may have to be established, servicemen recruited and trained, equipment purchased and spare parts stocked. It could be argued that such costs of servicing should not be tied to the sale of the product by having its costs built into the price of the product. Servicing, it can be argued should be sold separately. A response to this argument may be that for a period after the introduction of a new product into the market servicing is an uneconomic

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76. It was noted in Chapter One that consumers generally do not, and should not, regard trade marks as indicators of specific, fixed sets of product qualities. The critical factor for both the consumer and mark owner is that only one entity, the mark owner, have the power to use the mark and therefore the incentive to to trademark goods meeting with consumer favour. That will still be the case under the proposed importation provisions. The imported goods may be different from those usually sold under the mark in Canada, but coming from the same "source" [the Canadian mark owner or persons related] their qualities will frequently reflect the same general product policies followed by that source in every market. The experience of encountering the same type of product, under the same mark but with some differences in characteristics is not a novel one for Canadian consumers.

operation.<sup>77</sup> A new entrant to the Canadian market may not have the resources to support such an uneconomic operation until it becomes viable, yet an adequate servicing network may be essential to selling the products. It might be argued that the only practical alternative for such a new entrant is to recover the costs of the service network in the sales price of the product.

Another aspect of the servicing problem may be that the Canadian mark owner sells his products with a warranty. The costs of servicing in the warranty period are part of the price of the product. The importer may provide no warranty.<sup>78</sup> Consumers may be deceived when they purchase the imported product, believing that they will receive warranty service.

#### 4. Advertising and Marketing Costs

In the classic model, the owner of the Canadian trade mark may licence an exclusive dealership in Canada to introduce a new product. It may require considerable investment by the dealer in sales promotion and advertising to achieve a profitable level of sales. As an exclusive dealer, he can recover these costs in the price of the product. However, if the

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77. When a product is newly introduced into the market, the units sold are new and less likely to break down and the number of units sold is not large enough to generate a sufficient repair business to make repairing a viable independent operation.

78. See Remington Rand, above at note 17.

same product is imported, the price of such product not reflecting these expenditures by the Canadian dealer, the importer may be said to be taking an unfair "free ride" on the efforts and expenditure of the dealer.

However, it is questionable whether there should be a statutorily protected right to the returns from specific advertising expenditures. Such "free rides" are not unique to the trade mark importation problem. For example, a Canadian seller may be benefiting from the advertising of an American seller where U.S. television or magazine advertising is received in Canada. Similarly, in cases in which products are not sold by exclusive dealerships, advertising of the product by one Canadian seller can benefit other Canadian sellers of the same product. To reduce this loss of sales effect, sellers identify themselves as the source of supply in their advertising. The dealer in the problem set out above could adopt a similar practice in his sales promotion and advertising. Most importantly, where the 'source' of the imported products is related to the Canadian mark owner, as it must be under the proposed amendments, the Canadian mark owner receives a direct or indirect financial return in the sale of the product for export to Canada. In a simple example:

- 1) U. Company is the registered owner of the trade mark in the U.S.
- 2) F. Company is a French company and a wholly owned subsidiary of U. Company. F. Company is the registered owner of the mark in France.

- 3) C. Company is a Canadian company, 65 per cent of which is owned by F. Company. C. Company is the registered owner of the mark in Canada.
- 4) L. Company is the exclusive licensee of C. Company to use the mark in Canada. L. Company incurs advertising expenditures in Canada.
- 5) I. Company imports products into Canada under the mark, which were placed on the French market by F. Company.

L. Company may argue that I. Company is taking an unfair free ride on its advertising.

However, F. Company made a profit in selling to I. Company. The returns ultimately flow to U. Company from F. Company.

Also, C. Company makes a return in the form of licensing fees from L. Company, a significant portion of which flow back to F. Company and then to U. Company. To the extent that L. Company is unfairly treated by sales of products in Canada originating from F. Company, there should be an adjustment in the licensing fees charged L. Company by C. Company [which reduces the return to F. Company then to U. Company, but this reduction has been balanced by the return to F. Company then to U. Company on the sales for export].

Note that where the user of the Canadian mark is not related to the foreign source, e.g., where there has been an arm's length assignment of the mark to a Canadian assignee,

the same argument concerning direct or indirect 'returns' to the Canadian mark owner from the sales for export to Canada.<sup>79</sup>

In effect what the exclusive distributor in the example is seeking to do when he asserts trade mark rights to exclude importation<sup>80</sup> is to use the trade mark procedure to enforce rights he was supposed to acquire under contract. Trade mark law should not be used to "shore up" contractual rights in such cases. Parties should be left to pursue ordinary contractual remedies.<sup>81</sup>

## 5. Recommendation

There appear to be good reasons for the consumer interest and the legitimate interests of trade mark owners to provide a mechanism whereby exceptions may be made to the proposed importation rules in particular cases. These cases should be limited to those of significant quality differences and servicing problems, and should not include advertising "free ride" cases.

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79. This was noted above, p. 222.

80. As a licensee he might do so under s. 49(4) of the present Act.

81. Doing so may subject the parties to competition law sanctions. See above, p. 50 . See also the comments on the development of the U.S. law on importation, p. 189. It should be noted that any such change in the law as that recommended here is going to introduce transitional difficulties, particularly for such persons as the exclusive distributor in the example given.

Furthermore, any excepting provision must be carefully drafted so that it does not become a substantial obstacle to importation, thus defeating the purpose of the proposed statutory changes.

Consequently, it is recommended that a provision be introduced into the Act permitting the owner of a Canadian trade mark<sup>82</sup> to apply to the Registrar in the case of significant quality differences or servicing differences injurious to the Canadian consumer. The Registrar should have the power to grant an order directing that the importer may import the product under the trade mark only if he provides the consuming public with adequate notice of the differences between the imported products and those products usually sold under the mark in Canada.

The statutory provision could be of the following nature:

s. 20B. (1) In any case in which a person does an act which except for s. 20A would be, or be deemed to be contrary to the rights of the owner or registered owner of a trade mark, the owner or registered owner may make application to the Registrar for an order under this section.

(2) Subject to any agreement subsisting between the parties, a licensee of a trade mark may call upon the owner thereof to make an application under this Section, and, if the owner refuses or neglects to do so within two months after being so called upon, the licensee may

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82. Including a licensee. See the present s. 49(4).

make application in his own name as if he were the owner, making the owner a defendant; but an owner so added as defendant is is not liable for any costs unless he takes part in the proceedings.

(3) The owner or registered owner shall provide notice of such application to such person, the Attorney General of Canada and such other persons as the Registrar may prescribe.

(4) Upon hearing all persons interested, the Registrar may grant an order under this section if he is satisfied that, as between the goods imported pursuant to Section 20A(1) and the goods manufactured, sold or distributed in Canada in association with such trade mark by the owner or registered owner of the trade mark or persons related to such owner or registered owner,

i) There are substantial and important differences in the characteristics of the goods such as are likely to cause deception of the consumers of such goods, or

ii) There are substantial and important differences in the repair or replacement services available for such goods as are likely to cause deception of the consumers of such goods.

(5) An order granted under this Section shall require such person who imports, sells, distributes or advertises such goods pursuant to Section 20A(1) to provide consumers, at or before the purchase or consumption of such goods, with adequate notice of the differences between such goods and those manufactured, sold or distributed by the owner or registered owner of the trade mark or persons related to such owner or registered owner.

(6) If a person subject to an order under this Section fails to observe the requirements of such order, he shall not be entitled to the benefit of Section 20A in any legal proceedings.

(7) The Governor in Council may make regulations for carrying into effect the purposes and provisions of this Section.

One matter, among others, that is not discussed here is the propriety of providing for interim, ex parte orders under this provision to deal with "emergency" situations requiring prompt action. In considering such a provision care must be taken to ensure that it does not become a means for harrassing importers who are legitimately bringing goods into Canada under the proposed s. 20A.

## CHAPTER EIGHT

### TRADE MARK USE, MAKING KNOWN, NON-USE AND ABANDONMENT

#### I. Introduction

Both common law and statutory trade mark rights under Canadian law are acquired and maintained through the use of a mark.<sup>1</sup> It would be possible to adopt a system in which trade mark rights did not depend on use but rather on registration alone.<sup>2</sup> However, it is not recommended here that any fundamental change be made in this requirement for use.

If trade marks which are protected under the common law and s. 7 of the Act are to be retained as is recommended here, it would not be possible to dispense with the use requirement for such marks. The acquisition of distinctiveness through use is the manner in which such marks which are entitled to protection are identified. Furthermore, the proliferation of trade marks in use, both registered and unregistered, may mean that it is increasingly difficult for a would-be new entrant to a particular product market to find appropriate trade marks which

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1. While an applicant for registration of a proposed trade mark need not have used the mark to gain priority in the right to register the mark, he must use the mark to secure registration. Act, s. 39(2).
  2. The choices of systems available and the reasons for the adoption of the present system were discussed by the 1953 Committee, Fox. 2nd Ed., p. 1168.

he is free to adopt.<sup>3</sup> To permit persons to acquire extensive rights in marks they were not using so as to preclude others from using such marks would introduce another obstacle to effective competition. Finally, there are some public and private administrative costs in putting marks on the register. It is submitted that these costs would not be balanced by benefit to the public if extensive rights to register and maintain registration were granted in the case of unused marks.<sup>4</sup>

## II. Some Problems of Registration of Trade Marks By Non-Resident Owners of Canadian Trade Marks

### A. Use of Trade Marks by Non-Residents

Section 16(1) of the Act gives a priority in the right to register a mark to the person who first used the mark in Canada.<sup>5</sup> "Use" of a trade mark is defined in s. 4 of the Act as follows:

4. (1) A trade mark is deemed to be used in association with wares if, at the time of the transfer of the property in or possession of such wares, in the normal course of trade, it is marked on the wares themselves or on the packages in which they are distributed or it is in any other manner so associated with the wares that notice of the association is then given to the person to whom the property or possession is transferred.

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3. Reference to this problem in a Canadian context is contained in Gage, "Corporate Trade Mark Practice", (1960) P.T.I.C. Proceedings 218 at p. 226.
  4. See below, p.269 for a brief discussion of the need for a mark owner to be able to 'reserve' a mark, for a limited period, prior to being ready to use it.
  5. Subject to the better right of one who first made the mark known in Canada prior to such first use.

(2) A trade mark is deemed to be used in association with services if it is used or displayed in the performance of advertising of such services.

(3) A trade mark that is marked in Canada on wares or on the packages in which they are contained is, when such wares are exported from Canada, deemed to be used in Canada in association with such wares.

The definition of "use" has caused some difficulty in establishing whether marks are used in Canada when goods are imported into Canada bearing a trade mark, where the mark was applied to the goods by the owner of the mark in a foreign country.<sup>6</sup> Problems may arise in cases in which the goods are shipped from the foreign country f.o.b. a foreign location. Whether such action constitutes use in Canada of the trade mark by the foreign mark owner depends in part on the interpretation given to s. 4(1) of the Act.

First, it is clear there must be, at some time, either a transfer of property in or a transfer of possession of trademarked goods in Canada. However, there is a question as to whether to be using the mark in Canada for the purposes of s. 16(1) the foreign mark owner must either own or be in possession of the goods at the time the transfer of title or possession takes place in Canada.<sup>7</sup> The alternative would be the argument that as long as there is a transfer of property in or possession of the trademarked goods in Canada in the normal course of trade, the foreign mark owner's trade mark is used by him in Canada regardless of the fact that he is not the transferor of property or possession in Canada.

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6. See W.L. Hayhurst, "Problems of Non-Resident Ownership of Canadian Trade Marks", (1963) P.T.I.C. Proceedings 134.

7. See Hayhurst, op. cit., pp. 135-138.

In Manhattan Industries Inc. v. Princeton Manufacturing Ltd.<sup>8</sup> the court appears to have adopted the latter interpretation of "use" s. 4(1). However, it is respectfully submitted that the strict basis of the decision in that case may not be completely clear. The court rejected the argument that possession of the goods had passed to the purchaser in the U.S. under an f.o.b. contract when the goods were delivered by the vendor to the Post Office in the United States. Heald, J. then went on to state:

"... there was a transfer of possession when the Canadian retailers [the purchasers under the f.o.b. contracts] received the trademarked goods from the Post Office in Canada and not before and ... this is 'use in Canada' within the meaning of s. 4."<sup>9</sup>

What may not be clear is whether Heald, J. regarded the vendor, who had placed the mark on the goods in the U.S., as being in possession of the goods until the purchaser received them from the Post Office in Canada. In that case possession would have passed from the U.S. trade mark owner to the purchaser in Canada which would have satisfied the first interpretation of "use" in s. 4(1) and s. 16 suggested above. However, the court may have viewed the Post Office as being in possession when the purchaser took possession in Canada.<sup>10</sup>

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8. (1971), 4 C.P.R. (2d) 6.

9. (1971), 4 C.P.R. (2d) at p. 16.

10. The comments of the Court regarding the interpretation of "possession" in s. 4 as physical control should be noted in this regard. (1971), 4 C.P.R. (2d) p. 16.

However, the court went on to state, in what may have been obiter dicta, the second view of s. 4(1) indicated above. Heald, J. said in reference to the words "in the normal course of trade" which appear in s. 4(1):

"I think those words must surely mean that s. 4 contemplates the normal course of trade as beginning with the manufacturer, ending with the consumer and with a wholesaler and retailer or one of them as intermediary. When the applicant [the U.S. mark owner and vendor in the f.o.b. contracts] sold to the retailer and the retailer sold to the public, the public came to associate applicant's mark with the HARNESS HOUSE belt; s. 4 contemplates that the use between the retailer and the public enures to the benefit of the manufacturer and its use in Canada. In other words - if any part of the chain takes place in Canada, this is "use" in Canada within the meaning of s. 4. If this interpretation is correct, then the sale by the retailers in Toronto and Montreal to the public of HARNESS HOUSE wares marked with applicant's trade mark is a "use" in Canada and it matters not whether property or possession passed to the retailer in the United States".<sup>11</sup>

It is respectfully submitted that this latter interpretation of use in ss. 4(1) and 16 by Heald, J. is the view which should prevail for the purposes of deciding the priority rights of foreign residents to register a trade mark in Canada under s. 16(1) of the Act.

It is suggested that this is the proper approach, as to adopt the other possible interpretation of s. 4(1) indicated here could give rise to

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11. Ibid.

cases in which there had been significant distribution of goods in Canada in circumstances like those in the Manhattan case. Some Canadian consumers would then be familiar with the trade mark and the goods distributed in association with it by the non-resident mark owner. However, if the other interpretation of s. 4(1) were adopted, such a non-resident mark owner would not be able to claim use in Canada and base his application for registration on that use under s. 16(1).<sup>12</sup> In such a case a person unrelated to the foreign mark owner might begin using the mark and apply for its registration under s. 16(1) or might apply for its registration as a proposed mark under s. 16(3). The foreign mark owner would not be able to prevent such registration on the basis of his prior use of the mark. The result would be deception and confusion of that segment of the Canadian public that had become familiar with the mark associated with the goods of the foreign mark owner.

Furthermore, it should be recognized that in such a case the business of the foreign mark owner may grow in his own country. The result may be as foreign advertising "spills over" into Canada and as more Canadians travel in the foreign country and become familiar with the foreign mark owner's products, growing confusion on the part of Canadians concerning that trade mark. Our law must be realistic concerning the effect of increasing world trade on trade marks, and must not create unreasonable obstacles to non-residents obtaining registration of marks in Canada. Such obstacles can only serve to harm the interests of Canadian consumers in obtaining reliable information concerning

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12. In the example assume that the mark is not "well known" under s. 5 [See below, p.245], and that the foreign mark owner cannot register in Canada under s. 33 because more than six months have passed from the filing of the foreign application.

products.<sup>13</sup> However, unfair advantages over Canadian residents should not be given to foreign residents in gaining Canadian trade mark rights.

The precise significance of the phrase "the normal course of trade" in s. 4(1) may not be completely clear. In general purpose was indicated in the Manhattan case:

"I think that those words must surely mean that s. 4 contemplates the normal course of trade as beginning with the manufacturer, ending with the consumer and with a wholesaler and retailer or one of them as intermediary. ... - if any part of the chain takes place in Canada, this is "use" in Canada within the meaning of s. 4."<sup>14</sup>

In the context of the problem of use by a non-resident of a mark in Canada, the phrase requires that there be a transfer of property in or possession of trademarked goods in the normal course of trade in Canada. A case in which there would apparently be no such transfer might be the following:

Example "Tourists"

The U.S. mark owner is a manufacturer who uses the trade mark on goods he manufactures and distributes to retailers exclusively within the U.S. The trade mark is affixed to the goods themselves so that it cannot be removed. Canadian residents, travelling as tourists in the U.S., purchase the

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13. Trade marks are one device for providing some such information. Our legislation no longer has a provision like s. 3 of the Unfair Competition Act, 1932 which prohibited the knowing adoption of a trade mark already in use by another person in another country of the Union which was known in Canada. See also s. 10 of that Act. See Fox, 3rd Ed., pp. 53-54.

14. (1971), 4 C.P.R. (2d) at pp. 16-17.

goods from retailers there and bring them into Canada for their personal use.

The phrase "normal course of trade" might exclude the sale in Canada by such tourists of used trademarked goods to other consumers.

A more difficult case might be that in which the "tourists" traded in the used goods on the purchase of replacement goods from Canadian retailers. The Canadian retailers might then resell the goods bearing the U.S. owner's mark as a part of their usual business in used goods of that type.

In the general context the phrase "the normal course of trade" is designed to ensure that the use of a mark be a real and significant use in trade rather than a mere token use for the purposes of acquiring or maintaining trade mark rights. As such, what will amount to use in the normal course of trade will vary with the nature of the product and the particular circumstances of each case. Consequently, it does not appear to be possible or desirable to attempt a more precise statutory definition of the nature of the use required.

Another aspect of the interpretation of "use" in the Act concerns the definition of "trade mark" in s. 2. That definition "... requires an attendant purpose or result of distinguishing one's wares from the wares of others."<sup>15</sup> In the "tourist" example given above it might be argued that the mark owner did not have the purpose of distinguishing his goods in Canada. As well, since the goods are not in trade channels in Canada it could be argued that the mark is not used so as to distinguish in Canada.

However, in general the view taken is probably that whenever a non-resident mark owner causes his mark to be associated with goods it

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15. Hayhurst, op. cit., p. 136.

can be assumed that he intends the mark to distinguish his goods wherever his goods may be found. As to the requirement that the mark actually distinguish the owner's goods when used in Canada,<sup>16</sup> it appears that when a mark owner applies his mark to his goods, the presumption is that the mark distinguishes the goods of the mark owner rather than the goods of anyone else unless there is clear evidence to the contrary.<sup>17</sup> This approach indicates the very limited nature of the information that a trade mark can be relied upon to convey to consumers and the air of "unreality" that seems inevitably to be introduced on any careful analysis of the concept of distinctiveness. When a consumer encounters the typical trade mark directed to the retail consumer, he often simply assumes that there is some one entity that has the exclusive right to use that mark. He often does not know who that entity is (whether a foreign manufacturer, a Canadian importer or a Canadian retailer) and does not care provided that the goods are satisfactory. Consequently, it does seem a little 'unreal' to talk of the mark as actually distinguishing anyone's goods. The C.I.P.A. brief to the Committee examining British trade mark law expressed this point in relation to the British definition of trade mark as follows:

"In our opinion an essential defect in the existing definition is that it fails to preserve a clear distinction between the facts that are true of a trade mark without necessarily being apparent to the public, and the facts that are made apparent to the public by the trade mark. We think that it fails to observe

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16. Act, ss. 2 "trade mark", "distinctive".

17. Hayhurst, *op. cit.*, p. 137, note 7 discusses some cases in which marks were held to have become distinctive in fact of an exclusive importer of the goods.

this distinction when it uses the word "indicating". In our view the word "indicating" must refer to the effect of the trade mark on the viewer or hearer to whom it is addressed. Marks advertised on a nationwide scale are clearly addressed to the retail purchaser, and hence a statement that such a mark "indicates" or "denotes" a connection between the goods and a person means nothing if it does not mean that the public knows the identity of the person connected with the goods, and as we have observed it very often does not mean this at all."<sup>18</sup>

It is submitted that typically "the facts that are made apparent to the public" is just the fact that some entity claims the exclusive right to use the mark. The other "facts that are true of a trade mark without necessarily being apparent to the public" is the fact that a particular, identifiable legal entity claims the exclusive right to use the mark.

This particular, identifiable legal entity is the "owner of the trade mark" which concept is the subject of a suggested definitional statutory section, below.<sup>19</sup> The owner is the person who first uses the mark (whether the public is aware that it is he who first uses or not) or first causes it to be associated with goods or services in the market place. In the context of the "non-resident user" problem discussed here, that person is the foreign mark owner. Consequently, the foreign mark owner should be entitled to secure registration of the mark based on his use. However, the right to register could be defeated on a demonstration that in fact, the Canadian public

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18. Journal of Chartered Institute of Patent Agents, Nov. 1972, pp. 47-48.

19. See below, p. 250.

associates the mark with another identifiable legal entity so that the mark does not actually distinguish the goods of the foreign mark owner, (i.e., is not "distinctive", Act, s. 2).

The definition of "use" of a trade mark in relation to services is as follows:

- 4(2) A trade mark is deemed to be used in association with services if it is used or displayed in the performance or advertising of such services.

The reference to advertising in this subsection might give the impression that it would be sufficient merely to advertise such services even though no such services were performed. To avoid any such implication the subsection could be amended as follows:

- 4(2) A trade mark is deemed to be used in association with services if it is used or displayed in the performance of such services, or if it is used or displayed in the advertising of such services provided that such services are actually performed.

B. Making Known Trade Marks By Non-Residents

Under the Act, s. 5, making known a trade mark apparently does not involve transfers of property in or possession of trademarked goods in the normal course of trade in Canada. However, s. 5 indicates that a mark may be made known in Canada if "... wares are distributed in association with [the trade mark] in Canada ...".<sup>20</sup> Thus, the

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20. Act, s. 5(a). Emphasis added.

actions which might constitute making known a trade mark in Canada may overlap to some extent with the actions which might constitute use of the mark in Canada.<sup>21</sup> However, the word "distributed" in s. 5 may also apply to the "tourist" example above, so that Canadian tourists bringing goods from the U.S. for consumption or use in Canada, where the goods were marked with the trade mark, would amount to distribution of the goods in Canada for the purposes of making known the trade mark.

In order to obtain registration of a mark on the basis of making it known in Canada, the applicant must show that it has become "well known" in Canada. A mark is not well known when consumers only in a particular area of Canada are familiar with the mark.<sup>22</sup>

In Wian v. Mady<sup>23</sup> the court rejected an application to expunge a registration of a mark on the basis of prior making known of the mark by the applicant. The mark had been used in the U.S. only by licensees of the applicant under U.S. law. The advertising of one of these licensees was received in Canada and was claimed as the basis for the making known of the mark in Canada by the applicant. The applicant failed first, because he could not show that he had used the mark in the U.S., but only that his licensees had so used it. Such use could not inure to the benefit of the applicant under s. 5 of the Act. Second, under s. 17(1) of the Act the applicant to expunge a registration on the basis of previous making known of the mark must be the person who previously made the mark known. The

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21. This assumes that "distributed" in s. 5 necessarily entails transfers of property in or possession of the trademarked goods.

22. Robert C. Wian Enterprises Inc. v. Mady (1965) 46 C.P.R. 147 (Ex. Ct.) See pp. 164-170.

23. See note 22.

court held that the making known in Canada by the licensee of the applicant under U.S. law could not be regarded as making known by the applicant himself under s. 17(1).

It is submitted that the Act should be amended to reflect the view of the function of trade marks set out in Chapter One so that a different result might be achieved in a similar case under the suggested amended legislation. Consequently, it is recommended that amendments of the following nature be made to the Act:

- s. 5 A trade mark is deemed to be made known in Canada by a person only if it is used by such person or a person related to such person in a country of the Union other than Canada, in association with wares or services, and ...

[Continues as in present Act]

[Underlined part is new]

17. (1) No application for registration of a trade mark that has been advertised in accordance with section 36 shall be refused and no registration of a trade mark shall be expunged or amended or held invalid on the ground of any previous use or making known of a confusing trade mark or trade name by a person other than the applicant for such registration or his predecessor in title, except at the instance of such other person or his successor in title, or a person related to such other person or his successor in title, and the burden lies on such other person or his successor to establish that he had not abandoned such confusing trade mark or trade name at the date of advertisement of the applicant's application.

## C. Recommendations

### 1. Use by Non-Residents Under s. 16(1)

In order to ensure that the interpretation of Heald, J. in the Manhattan case of the meaning of "use" in s. 16(1) is followed, it is recommended that s. 16 be amended. A new subsection should be added to s. 16 defining the meaning of "use" for the purposes of s. 16(1). The new section could be of the following nature:

s. 16(1)A. For the purposes of s. 16(1) a trade mark is deemed to be used in association with goods in Canada by a person if the mark is deemed to be used in Canada within subsection 4(1), whether or not such person is the transferor of the property in or possession of such goods in Canada, provided that such trade mark is used for the purpose of distinguishing or so as to distinguish in Canada the goods of such person or of persons related to such person from the goods of others.

### 2. Registration By the Owner on the Basis of Use or Making Known by Persons Related

To be consistent with the view of the meaning and function of trade marks presented in Chapter One the Act should authorize the owners of trade marks to apply for registration on the basis of the use of or the making known of a trade mark by persons related to the owner of the mark.

In the case of a group of related companies,<sup>24</sup> any one of the companies should be permitted to register the mark on the basis of

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24. See p. 47 above, for proposed s. 2A(a).

the use of the mark by any of the other companies of the group. The Act should not provide for a prior right for one of the group of companies to register. This is a matter for the companies themselves, the power of decision resting in the hands of the entity which has ultimate control over the entire group of companies.

In the case of a licence, the licensee should not be permitted to register the mark on the basis of use or making known by itself, another licensee or the licensor. The licensor is the legal entity to which consumers look to ensure the probable consistency of quality of the products distributed in association with the mark. To permit a licensee of an unregistered mark to register the mark in such circumstances would be deceptive of consumers.

A problem may occur in relation to use or making known by a non-resident owner of a mark. Such use or making known might be done from a particular country by a person who was a related person to the registered owner of the trade mark in the foreign country according to the definition proposed in the paper for the Canadian Act. However, under the foreign law, such person might be an improper user of the mark, perhaps so as to cause the foreign registration to be invalidated if it were challenged. Should it be necessary that the use by the person related to the foreign mark owner be proper under the foreign law in order to provide a basis for registration by the mark owner in Canada?<sup>25</sup> It is submitted

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25. Clearly the converse should not apply, e.g., use by a licensee under the foreign law which could amount to use or making known in Canada under s. 16(1) should not give the registered owner of the foreign mark the right to register in Canada if the foreign licence is proper under the foreign law but not within the proposed provisions on licensing in Canadian law. See Wian v. Mady, above at note 22.

that it should not be necessary. The use would be proper under the proposed Canadian law which is designed to protect Canadian consumers and to provide just protection for the rights of the owners of Canadian trade mark rights. Foreign law should be irrelevant to these questions.

Suggested statutory changes to achieve the above recommendations follow:

- s. 16(1) An owner of a trade mark who has filed an application in accordance with section 29 for registration of a trade mark that is registrable and that he or his predecessor in title or persons related to him or his predecessor in title has used or made known in Canada in association with goods or services is entitled subject to section 37, to secure its registration in respect of such goods or services, unless at the date on which he or his predecessor in title or the persons related to him or his predecessor in title first so used it or made it known it was confusing with ...

[Continues as in present Act]

[Underlined parts are new]

- s. 2 "owner of a trade mark" means
- a) the person who first uses the trade mark in Canada or a person related to such person, or
  - b) the person who first makes the trade mark known in Canada, or a person related to such person, or

- c) a person who is qualified to register the trade mark under the provisions of subsection 16(2), or
  - d) the person who first applies and is qualified to register the trade mark as a proposed trade mark under subsection 16(3).
- s. 49(11) Nothing in this Act confers on a licensee of a trade mark any right to register such trade mark or any transferable right to the use of such trade mark.

Alternative to s. 49(11):

- s. 16(1)B. Nothing in this Act [Section 49] confers on a licensee of a trade mark any right to register such trade mark.

D. Registration By Registrants of Foreign Marks

Under its obligations under the Convention, Canada has given a prior right to register a trade mark to an applicant who has registered the mark in his "country of origin".<sup>26</sup> In Article 6B the Paris Convention prescribes bases on which countries may reject such applications for registration:

"6B- (1) Nevertheless, registration of the following may be refused or invalidated:

1. marks which are of such a nature as to infringe rights acquired by third parties in the country where protection is claimed;

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26. Act, ss. 16(2); 2 "Convention", "country of origin", "country of the Union"; 29(d), 30, 33.

2. marks which are devoid of any distinctive character, or consist exclusively of signs or indications which may serve in trade to designate the kind, quality, quantity, intended purpose, value, or place of origin of the goods or time of production, or have become customary in the current language or in the bona fide and established practices of the trade of the country where protection is claimed. In arriving at a decision as to the distinctive character of a mark, all the factual circumstances must be taken into consideration, particularly the length of time the mark has been in use;
3. marks which are contrary to morality or public order, in particular those of such a nature as to deceive the public. It is understood that a mark may not be considered contrary to public order for the sole reason that it does not conform to a provision of the law relating to trade marks, except where such provision itself relates to public order.

(2) Trade marks shall not be refused in the other countries of the Union for the sole reason that they differ from the marks protected in the country of origin only by elements that do not alter the distinctive character and do not affect the identity of the marks in the form in which these have been registered in the said country of origin."<sup>27</sup>

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27. Act of London, 1934, Article 6B.

The Act s. 14 prescribes the tests of registrability of marks which are the subject of such applications. Section 14 appears to have been closely patterned on the words of Article 6B of the Convention:

Act, s. 14(1) Notwithstanding section 12, a trade mark that the applicant or his predecessor in title has caused to be duly registered in his country of origin is registrable if, in Canada,

(a) it is not confusing with a registered trade mark;

(b) it is not without distinctive character, having regard to all the circumstances of the case including the length of time during which it has been used in any country;

(c) it is not contrary to morality or public order or of such a nature as to deceive the public; or

(d) it is not a trade mark of which the adoption is prohibited by section 9 or 10.

(2) A trade mark that differs from the trade mark registered in the country of origin only by elements that do not alter its distinctive character or affect its identity in the form under which it is registered in the country of origin shall be regarded for the purpose of subsection (1) as the trade mark so registered.

Note that the standards of registrability in s. 14 are described in different words than the standards set out for all other marks in s. 12(1) of the Act. The standards in subsections 14(1)(b) and

(c) are substituted for those in s. 12(1)(a), (b) and (e). It is submitted that the Convention Article 6B(1)2 which was apparently the model for drafting s. 14(1)(b) states tests of registrability which are essentially those in s. 12(1)(a), (b) and (e). The danger in including a separate statutory section which provides a differently worded test of registrability for foreign-registered marks is that it may imply to the administrators of the trade marks system and the courts that a different, and perhaps less rigorous test is to be applied to such marks. The application of any such less demanding test of registrability is not in the interests of the Canadian public. Furthermore, it is submitted that the application of such a test is not required by Canada's obligations under Article 6B(1)2 of the Convention.

Subsection 14(1)(c) which appears to be patterned after the words of Article 6B(1)3 of the Convention does not add anything to the protection of the public interest that is not contained in the tests of registrability set out in s. 12(1) of the Act.

Consequently, it is recommended that s. 14(1) be eliminated from the Act and that marks which are the subject of such applications be subject to the tests of registrability set out in s. 12.<sup>28</sup>

### III. Non-Use and Abandonment

#### A. Introduction

Trade mark rights are generally acquired and maintained under Canadian law through the use of the mark. The basic reason for the requirement of use is that it would be unfair to other traders who wish to adopt and use a particular mark to find themselves prevented from doing so by the trade

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28. Section 14(2) must be retained because of the Convention obligations in Article 6B(2).

mark rights of one who has never used, is not using and may have no intention of using the mark in question. From the consumer interest, permitting a trader to block others from using marks that he is not using may have some impact on hindering effective competition.

There are two aspects of Canadian trade marks law that deal with the loss of trade marks rights through non-use of the mark. The first is the law of abandonment and the second is s. 44, the non-use provision of the Act.

## B. Abandonment

Both common law and statutory trade mark rights can be entirely lost through abandonment of a trade mark.<sup>29</sup> Abandonment does not involve simply discontinuance of use. It also requires an intent to abandon or not to resume use of the mark. Generally, the onus of proof lies on one who alleges that a mark has been abandoned.<sup>30</sup> Requiring as it does, the showing of the mark owner's intention not to resume use of the mark, proof of abandonment can be a difficult matter.

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29. Act, s. 18(1)(c) provides for the loss of registration through abandonment. Prior use or making known of a mark cannot prevent a subsequent user or applicant from obtaining registration if the prior user has abandoned the mark, Act ss. 16(5), 17(1).

30. Act s. 17(1) which deals with oppositions to, or expungements of registrations on the basis of a prior use or making known of the mark places the onus of showing no abandonment of the mark on the prior user or maker known.

### C. Section 44

Section 44(1) provides that the Registrar may on his own initiative at any time, or shall at the written request of any person made three years after the date of the registration, forward to the registered owner of the trade mark a notice, requiring him to furnish within three months an affidavit showing with respect to each of the wares or services specified in the registration, whether the trade mark is in use in Canada. If the trade mark is not in use, the registered owner is to specify the date it was last so used and the reasons for the absence of such use since that date.

While a certain amount of policing is done by the Registrar on his own initiative, the great majority of Section 44 Notices result from complaints from those in the private sector who wish to use the mark, but find the mark registered by another person. The Registrar is required to issue a Section 44 Notice if requested to do so unless "he sees good reasons to the contrary". In the year ending, March 31, 1973, 618 Notices were issued pursuant to Section 44 with the result that the trade marks were cancelled in 128 cases. Of the total of 618 Notices, 44 were issued by the Registrar at his own initiative.

Section 44(2) of the Act provides that the Registrar shall not receive any evidence other than the affidavit or statutory declaration of the registrant required by s. 44(1), but he may hear representations made by or on behalf of the registered owner of the trade mark, or by or on behalf of the person at whose request the notice was given. The rationale for the limited nature of the evidence receivable was considered in Noxema Chemical Co. of Canada Ltd. v. Sheran Manufacturing et al where Jackett, P. stated:<sup>31</sup>

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31. (1968), 38 Fox Pat. C. 89 at pp. 96-97. (Ex. Ct.)

"As I read Section 44, it does not provide a summary procedure for determining whether a registered trade mark has been 'abandoned' within the meaning of Section 18(1)(c). What it does, as I understand it, is provide a summary procedure whereby the registered owner of a trade mark is required to provide either some evidence that the registered trade mark is being used in Canada or evidence of 'special circumstances that excuse ... absence of use'. The penalty for the registered owner failing to provide such evidence is that his trade mark becomes liable to be 'expunged' (section 44(3)), and will be expunged (Section 44(5)). What seems to be contemplated is that there will be on the Registry many trade marks that the registered owners do not use and in respect of which the registered owners make no pretence of having any interest. A notice under section 44(1) will obviously result in many of such trade marks being expunged because the registered owners will not respond to the notices or will furnish evidence that shows neither user nor anything that could be regarded, from the point of view of continued interest in the trade marks, as 'special circumstances that excuse such absence of use'. The fact that the Registrar is prohibited by section 44(2) from receiving any evidence other than that provided by the registered owner shows that it was not intended that the Registrar reach a 'decision' under section 44 as to whether the registered owner had 'abandoned' his trade mark or, indeed, whether the mark was in fact in use in Canada. ...

To put it in another way, section 44 provides the means of clearing from the Registry registrations for which the owners

no longer assert that there is any real foundation. An owner can avoid having any action taken against his registration by either a mere declaration of user or, if he admits non-user, by any reasonable explanation therefor."

The limited scope of s. 44 is emphasized by the fact that it appears that a registrant who receives a s. 44(1) notice who is not using the mark at that time can commence using the mark within the three months allowed for his reply and note this use in his affidavit so avoiding any further action being taken against his registration under s. 44. As well, it appears that a registrant whose registration has been expunged under s. 44 can immediately apply for registration of the same trade mark on the basis of his original date of first use. Similarly, such a registrant might be able to prevent registration of that mark by any other person by opposing the application for registration on the basis of former registrant's original first use. Expungement under s. 44 would not be conclusive evidence of abandonment under s. 16(5) so as to prevent the former registrant from successfully opposing the latter person's application.<sup>32</sup>

Section 44(3) of the Act provides that if it appears that a trade mark is not in use in Canada and that the absence of use has, "not been due to special circumstances that excuse such absence of use, the registration of such a trade mark is liable to be expunged or amended accordingly." As a result of the case law on s. 44<sup>33</sup> the Registrar

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32. The onus of showing that the mark had not been abandoned would be on the opposer, however. Act, s. 17(1).

33. See Noxema above at p. 256.

has felt constrained to accept a growing number of reasons for non-use. An examination of the more recent s. 44 procedures might lead to the conclusion that it is virtually sufficient if the registrant indicates only an intention to use the mark. The reasons for non-use which have been accepted as special circumstances include product failure, sickness of the registrant, bankruptcy of the registrant, inability to negotiate a licence agreement, inability to market the product economically at current prices, and the unavailability of the necessary raw materials for manufacture. More effective administration would be possible if there was some manner in which the "special circumstances" excusing non-use could be more particularly defined. Unfortunately, each case turns on its own facts and it is unlikely that a statute can allow for all possible variants.

#### D. Economic Council Recommendations<sup>34</sup>

The ECC recommended that affidavits be required every five years for registered trade marks "... to confirm that marks are still in effective commercial use". The Council also recommended that the Registrar's power under s. 44(3) to excuse non-use in special circumstances be retained. Finally, the ECC proposed that the statute be amended to provide that "... when a mark is expunged or is allowed to expire voluntarily, it cannot be reissued for a period long enough to allow the public's familiarity with it to disperse."

#### E. Recommendations

One problem that can arise in determining whether a trade mark is being used, occurs in cases in which a modified form of the mark as registered is the only mark in use. Some countries provide special statutory provisions which deem such use in appropriate cases to be use of the

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34. ECC Report, pp. 213-214.

mark as registered.<sup>35</sup> However, it is not recommended that such a provision be introduced into the Canadian Act. Under s. 15 of the Act specific provision is made for the registration of "associated trade marks". If registrants wish to use variants of their registered marks they should make use of s. 15.

Under s. 44, it is submitted that the type of use which must be maintained in order to preserve the registration of a mark is use as defined in s. 4 of the Act. This requires use as a trade mark (to distinguish the goods or services of the registrant from those of others). Further, in the case of goods, the mark must be marked on the wares or otherwise so associated with the wares at the time of the transfer of possession of or property in the wares in the normal course of trade as to give notice of the mark. This means that mere token use is not adequate to satisfy the requirements of s. 44. However, to eliminate any doubts on this point, s. 44 could be amended to clearly specify that use must be as a trade mark as defined in s. 4 of the Act.<sup>36</sup>

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35. The British Act of 1938, s. 30, provides that where use of a registered trade mark is required to be proved, a tribunal may accept use of the trade mark with additions or alterations not substantially affecting its identity, as an equivalent for the use required to be proved.

36. Note the suggested amendment to s. 4(2), above, p.245, to make it clear that use of a mark for services through advertising must be in relation to services that are actually being performed in Canada.

One of the major problems with the non-use provision is the apparent limitation in the nature of evidence that may be received by the Registrar. In many cases, the Registrar will receive an affidavit executed by the registered owner which merely states that the mark is being used. It is submitted that registrants should be required to submit evidence of such use. For example, specimens exhibiting the trade mark as used would not present an intolerable burden such as in invoices, labels, containers, or displays showing the trade mark as used. Similarly, it should not be difficult for the registered owner to document the date of this use.

In many countries "bona fide" use is required which apparently contemplates the meeting of objective criteria relating to the volume of sales, the number of purchases and the length of use, bearing in mind the size of firm. However, it is difficult to define "bona fide" use as it appears to turn upon the general practice in the trade being considered, but the concept does entail the notion that the wares or services are being made available to the public at large and token use or symbolic sales will not serve to avert loss of trade mark rights.

Another problem which must be dealt with is the nature of the "special circumstances" which should be accepted by the Registrar as an excuse for the non-use under s. 44(3).<sup>37</sup> The laws of Great Britain, France, the United States, Germany,

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37. Article 5C(1) of the Convention provides "If, in any country, the utilization of a registered trade mark is compulsory, registration cannot be cancelled until after a reasonable period has elapsed, and then only if the person interested cannot justify the causes of his inaction."

Sweden, Switzerland and Finland all provide that non-use is excused if a form of "special circumstances" exist. The BIRPI Model Law for Developing Countries (Marks) contains the provision: "only circumstances independent of the intent of the trade mark owner can be considered as justified reasons for an excuse of non-use. Lack of means is not such an excuse."

In some countries an attempt to delineate "special circumstances" is accomplished through a statutory section which makes it clear that the burden of proof is on the registered owner to establish the reasonableness of the alleged special circumstances. This would appear to be preferable to the current position in Canadian law where the mere allegation of the special circumstances has appeared in some cases to be sufficient. Unless there is a fairly restricted interpretation of the special circumstances that constitute an excuse for non-use as provided for in the statute, a requirement of use quickly loses any meaning.

Notwithstanding a statutory provision like that mentioned above, there remains a question whether there should be some time limit as to the acceptance of special circumstances as an excuse for non-use. If a mark owner has been unable to successfully finance the production of the product, to obtain adequate supplies of raw materials or to solve technical or engineering problems that plague the product within seven or eight years it seems difficult to argue that the public interest is served by continuing to allow the registration with respect to these wares. However, the danger in providing such a limit is that it will be taken to be the norm for the permitted period of non-use regardless of the absence of any circumstances which really justify the non-use.

A further amendment which should be introduced to s. 44 is to make the critical date of non-use, the date at which the Registrar sends the

notice. This will prevent the registrant from beginning to use immediately on receipt of such a notice so that he may file his affidavit up to three months later, stating that he is using at the date of the affidavit. Often such hastily contrived use is mere token use designed simply to prevent the expungement of the registration of the trade mark.

A more difficult question is whether one whose mark is expunged under s. 44 should be permitted to immediately re-register the mark alleging his original date of first use, i.e., the date he used to secure the registration which has just been expunged. In other words should the s. 44 procedure become "a summary procedure for determining whether a registered trade mark has been 'abandoned'".<sup>38</sup> The summary nature of the s. 44 proceeding is not appropriate for arriving at a decision as serious as that of declaring void the trade mark owner's rights in his mark. Such matters should be decided in the context of a full court proceeding. However, the summary nature of the s. 44 proceeding should be retained to deal with the problem of eliminating the "deadwood" from the register. In many s. 44 actions the registrant will not respond to the notice or will not seriously contest the expungement of his registration as he no longer has any real interest in the mark. In such cases the speedy, summary s. 44 procedure is highly desirable.

Nevertheless, it seems that a finding by the Registrar that the registration of a mark should be expunged under s. 44 should not be irrelevant to a proceeding on the issue of abandonment of that same mark. This is particularly the case when it is noted that the registrant whose registration has just been expunged may apply for re-registration using his original date of first

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38. Jackett, P. in Noxema, above at p.256.

use. A further point to be noted is the difficulty which litigants can encounter in attempting to prove that another has abandoned his mark.

Above, it was observed that the courts have been willing to imply the intent to abandon a mark through a lengthy period of unexplained non-use.<sup>39</sup> It is recommended here that this approach be given statutory form. Consequently, it is proposed that two provisions be introduced into the Act. The first would provide that on the expungement of a registration under s. 44 after a minimum, shorter period of non-use, say three years, such expungement and period of non-use would be prima facie proof of abandonment of the mark as of the date of the s. 44 notice. The onus would then be on the person whose registration had been expunged to show no abandonment. The second provision should provide that a s. 44 expungement after a longer period of non-use, say seven years, in any legal proceedings the mark would be deemed to have been abandoned as of the date of the s. 44 notice.

The ECC<sup>40</sup> made recommendations that periodic affidavits of use be required and that an affidavit of use be required on renewal of the registration. It is submitted that such a requirement would add very little to the proposed s. 44 and the existing renewal procedures in eliminating unused marks from the register. The value of the affidavits would not merit the administrative costs involved in filing and examining them.

The ECC proposal for a provision that "... when a mark is expunged or is allowed to expire voluntarily, it cannot be reissued for a period long enough to allow the public's familiarity with it to disperse" <sup>41</sup> should not be adopted. The

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39. Above at p. 255.

40. See above at p. 259.

41. See above at p. 259.

apparent problem that the Economic Council identifies is real enough, but the existing law takes care of it as far as is practicable. If a mark has been unused for some years and then is expunged there is no reason to prevent another from using it immediately upon expungement. If a registrant has recently used the mark so that it still identifies him to the public, yet the mark is expunged, such a person is very likely to resist its adoption by anyone else. This he will most likely be able to do successfully as no one else could safely adopt the mark unless he could show that the former registrant had abandoned the mark which might be difficult to do if the former registrant has used it relatively recently.

Amendments to the Act of the following nature should be adopted to incorporate the above recommendations:

- s. 44(1) The Registrar may at any time and, at the written request made after three years from the date of the registration by any person who pays the prescribed fee shall, unless he sees good reason to the contrary, give notice to the registered owner requiring him or his authorized agent to furnish within three months an affidavit or statutory declaration showing with respect to each of the wares or services specified in the registration, whether the trade mark was in use in Canada on the date of the said notice or within one month preceding that date and, if not in use in Canada at the date of the affidavit and at the date of the said notice or within the preceding month, the date when it was last so in use and the reason for the absence of such use since such date.

- 44(1)A The notice in subsection 1 shall require the registrant to attach as exhibits to his affidavit or statutory declaration sufficient evidence including then current samples of the trade mark in use, to demonstrate that the trade mark is in use in Canada.
- 44(1)B For the purposes of this Section, a trade mark is in use if the mark is in bona fide use as a trade mark in Canada as provided for in Section 4.
- 44(1)C The Registrar may in his discretion require that such affidavit or statutory declaration disclose such further evidence of the use of the trade mark at the said dates as he considers appropriate in the circumstances.
- 44(2) [Same as in present Act]
- 44(3) [Same as in present Act]
- 44(3)A Where a trade mark owner alleges special circumstances as a justification for non-use of a trade mark, he shall be required to establish the existence of the special circumstances, that such special circumstances are beyond the control of the trade mark owner and constitute a reasonable explanation for the non-use of a registered trade mark, that the registrant bona fide intends to use the trade mark as soon as the special circumstances permit and that it is likely that these special circumstances will permit the use of the trade mark in Canada within a reasonable period.

44(4) [Same as present Act]

44(5) [Same as present Act]

[Underlined parts are new]

44(5)A In any legal proceedings expungement of the registration of a trade mark under this Section, together with a finding by the Registrar that the mark has been unused for three years prior to the date of the notice as required by subsection (1), shall be deemed to be prima facie proof that the trade mark had been abandoned as of the date of such notice.

44(5)B In any legal proceedings expungement of the registration of a trade mark pursuant to this Section, together with a finding by the Registrar that the mark has been unused for seven years prior to the date of the notice required by subsection (1), shall be deemed to be proof that the trade mark had been abandoned as of the date of such notice.

#### IV. Trademark Registration Treaty

##### A. Introduction

The Trademark Registration Treaty adopted at the Vienna Diplomatic Conference in June, 1973 is currently under study by the Department of Consumer and Corporate Affairs in the context of the general review of Canadian trade mark law. The implications of Canada acceding to this treaty should be a matter which is the subject of consultations between the Department and the public during the period when this Working Paper and trade mark law reform generally are under discussion.

No recommendations are made in this paper concerning Canada's position in relation to the T.R.T. However, since one of the major concerns about the possibility of Canada acceding to the treaty appears to be the possible impact on the Canadian law's requirement of use of a mark, it seems in order to make some preliminary comments on that aspect of T.R.T. here.<sup>42</sup>

#### B. The T.R.T. and the Use Requirement

The Treaty provides in Article 19(3)(a) that no contracting state shall refuse to register or shall cancel a registration of a mark "... on the ground that the mark has not been used at any time prior to the expiration of three years counted from the international registration date [the date of application for registration in Canada if Canada accedes to the Treaty, see Article 11(1)]." However contracting states "... may provide that any action for infringement based upon an international registration may be started only after the owner of such international registration has commenced the continuing use of the mark in the said State and that any remedy resulting from such action shall relate only to the period after such use has commenced."

In commenting on the impact of T.R.T. on the Canadian law use requirement, the desirability of maintaining the use requirement should be re-affirmed. The proliferation of unused marks is unfair to other traders who wish to adopt and use the same or confusingly similar marks. Furthermore, extensive "banking" of unused marks may function as an anti-competitive practice to the injury of consumers.

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42. See "The Proposed Trademark Registration Treaty" (1973), 11 C.P.R. (2d) 81 at pp. 93-101 and 120, 125-129. These are comments on an earlier form of the Treaty than that considered here.

The brief analysis of T.R.T. here, outlines how far the present use requirement might be maintained in the light of T.R.T. First, the prior rights to marks and to register marks of those who used or made known a mark in Canada prior to an international registration application being received in Canada would be preserved.<sup>43</sup> Second, Canadian law could continue to require use as a condition for registration of all marks, even those that are the subject of T.R.T. applications, subject to the provisions of the Treaty, Article 19(3)(a).<sup>44</sup> The basic change introduced would be that the applicant would have three years from the date of application<sup>45</sup> in Canada to commence using his mark. Under the present Canadian law, an applicant may apply for registration of a "proposed trade mark" and has six months from the date of allowance to use the mark to qualify it for registration.<sup>46</sup> It can be argued that our present proposed mark provisions are not working well in practice because of an unrealistically short period after allowance within which use of the mark must commence.

The need for a proposed mark seems clear. In the light of the great costs in developing packaging, advertising, etc. traders wish to be certain

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43. T.R.T., Article 12(1)(i).

44. See above, p. 268, for a quotation from Article 19(3)(a). Note also Article 19(3)(b).

45. Note that the period during which there would be non-use after registration could be considerably shorter than three years. The permitted period for examination, etc. leading to registration under T.R.T. could be fifteen months or more. See Article 12(2)(i).

46. Act ss. 39(2), (3). Note that 'allowance' involves the performance of all steps leading to registration except the filing of the declaration of use.

that they have a registrable mark before they invest money in it. A large company in particular, may have many products in developmental stages which may become ready to market faster or slower than originally expected. Trade marks must be ready for use when the products are ready to market. It may happen that a trader registers a proposed mark anticipating that a new product will be ready within the six month proposed mark use period, only to find that developmental delays extend actual use beyond the six month period. Some have argued that the relative ease in obtaining extensions of the six month period in fact makes the period longer in many cases.<sup>47</sup> Further, it is argued that in a number of cases, because of problems like those mentioned above, applicants file declarations of token use in order to secure registration of their proposed marks. In the light of these difficulties it may be that even without T.R.T., consideration should be given to extending the period within which use of a proposed mark must be made to one year or more.

It should be noted that under T.R.T. declarations of intent to use a mark in Canada could be required of all applicants.<sup>48</sup> Furthermore, since T.R.T. permits national law to provide that no infringement remedy lies until there has been use of the mark and the remedies for infringement apply only to the period of actual use [essentially the same procedure as the Canadian Act "allowance" of a mark followed by "registration" on evidence of use], there might be considerable incentive to use a mark promptly.<sup>49</sup>

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47. Act, s. 46(1).

48. Article 19(4).

49. If there were extensive use by another in this period, conceivably the registrant's mark could lose distinctiveness and be expunged from the register. Act, s. 18(1)(b).

If T.R.T. were acceded to by Canada, the law could still provide for the loss of trade mark rights and expungement of registration for non-use,<sup>50</sup> subject to T.R.T., Article 19(3). Under the present s. 44(1) of the Act persons other than the Registrar cannot commence proceedings to expunge a mark for non-use until three years after registration of the mark.<sup>51</sup> However, under our current law the Registrar could act under s. 44(1) before three years had elapsed and an action alleging abandonment of the mark could be brought at any time.<sup>52</sup>

The above comments are not presented as an exhaustive analysis of the implications of T.R.T. for the use requirement. As well, no comment is made on the many other important implications that acceding to T.R.T. might have for Canadian law. However, even the cursory analysis above suggests that T.R.T. must be carefully examined before it is rejected as being inconsistent with Canadian law and interests.

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50. Article 13(1)(i).

51. By the Convention, Canada's law cannot provide that a registration is cancelled for non-use until after a "reasonable period" has elapsed. See Article 5.C.(1).

52. Act, s. 18(1)(c).

## CHAPTER NINE

### SOME PROCEDURAL AND ADMINISTRATIVE PROPOSALS

#### I. Introduction

This Working Paper does not include comprehensive proposals for administrative and procedural changes in the trade marks system. Such changes are the subject of studies that have been or are being conducted within the Department.<sup>1</sup> Some complex issues are currently facing those charged with studying administrative problems, e.g., proposals for the adoption of various machine searching techniques. Many of the proposals that might be made in this area are of a technical nature comprehensible only to those expert in the field. Consequently, such proposals were not thought suitable for this Working Paper which is directed to a wider public audience.

It is recommended that the review of procedural reforms continue and be made a subject of consultation with trade mark professionals and the public during the period when this Working Paper is under review. A general recommendation concerning legislative reform relevant to procedural reform is that efforts be made to ensure that the legislative system adopted be flexible enough to permit the innovations of procedural and administrative innovations without major statutory changes.

#### II. Rule-Making Power and Delegation of Responsibilities by the Registrar

The present Act contains a number of provisions which should be transferred to the Rules, which are more easily amended, to permit greater administrative flexibility. For example, the statutory provisions

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1. Some of the proposals discussed in this Chapter are from one very useful study conducted by the Trade Marks Office Committee and Corporate Research Branch.

for the keeping of registers,<sup>2</sup> the keeping of indices,<sup>3</sup> the contents of applications for registration,<sup>4</sup> and the contents of statements of opposition<sup>5</sup> should be the subject of rule-making power in the Act<sup>6</sup> with the detailed regulations contained in the Rules.

Furthermore, to eliminate any possible doubt on the matter, the Act should be so drafted as to permit the Registrar to delegate his authority under the Act to responsible officers where appropriate.<sup>7</sup> Given the volume of business conducted by the Trade Marks Office, the Registrar's responsibilities can realistically extend only to overall supervision of the Office and to quasi-judicial decision-making in unusual or difficult cases.

### III. Reducing Delays and Promoting Consistency in Examiners' Decisions Concerning Registrations

#### A. Introduction

The costs of operating the trade marks system can be reduced if an application for registration of a mark can proceed to a final decision concerning its registrability promptly. However as well as speed, the objective should be to improve continually the quality of the decisions on registrability, and in particular to strive for consistency in the decisions. Three proposals to achieve these two objectives are briefly outlined here.

#### B. Eliminate Advertising Fee

Applicants for registration pay a fee at the time of their applications. If the application

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2. Act, s. 26.
  3. Act, s. 27.
  4. Act, s. 29.
  5. Act, s. 37(3).
  6. Act, s. 65 contains the present rule-making power.
  7. For example, opposition proceedings under ss. 36 and 37. See below, p. 276, for further comment.

is accepted for advertising, the Office must request and receive a separate advertising fee.<sup>8</sup> The request for, and payment of the advertising fee introduces a significant and unnecessary delay in obtaining registration.<sup>9</sup> It is recommended that a single fee, combining the application and advertising fees be collected on receipt of the application for registration.

### C. Pre-Application Searches

A proposal that might be considered to make the examination system more efficient is the introduction of a pre-application search. Under such a system, the applicant for registration would first apply for a search to be conducted by the Trade Marks Office of all registered or pending marks. The applicant would then be advised of all the marks that the Office would consider in determining if there was confusion with an already registered or pending mark. It should be noted that the Trade Marks Office would not give any opinion as to whether confusion existed, it would only indicate all those marks which were considered relevant.

Such a procedure might make the examination process more efficient by discouraging some applications that otherwise would have been fully prosecuted by the applicant because the applicant or his agent might not have uncovered some confusing mark in his search prior to application which the Office might discover after application. More importantly, the negotiation process between the applicant and the Office should proceed more efficiently when the Office and the applicant are working from the beginning with the same base of possibly confusing marks.

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8. Rule 39(1).

9. Especially since nearly 90% of all applications are ultimately accepted for advertising.

A pre-application search system seems most ideally suited to a trade marks office which has a sophisticated machine searching system. However, it could be used in manual search systems and might make important contribution to efficiency.

#### D. Trade Marks Appeal Board

One criticism that has been made of the present examination system is that examiners are reluctant to reject an application outright, because the applicant's only recourse from such a rejection would be to appeal to the Courts.<sup>10</sup> Examiners might be encouraged to come to prompt decisions and to avoid protracted negotiations with applicants by the institution of a formal channel of administrative review of rejections of applications. Such a channel of review could take the form of a "Trade Marks Appeal Board" to hear appeals from rejections. Such a Board could have the further advantage of providing examiners with guidance as to the proper grounds of refusal through its decisions. The publication of such decisions would make them useful guidelines for applicants as well.<sup>11</sup>

#### IV. Oppositions

One complaint about the present opposition procedure has been that there are delays in obtaining decisions from the Registrar. Such delays occurred because the Registrar was carrying the full case load himself. A recent innovation, the Trade Marks Oppositions Board, which hears oppositions on behalf of the Registrar should alleviate the delay problem.

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10. Act, ss. 36(1), (2); 56. This is a costly and time consuming procedure.

11. The proposals for a pre-application search and the "Trade Marks Appeal Board" were the subject of discussion in the Study referred in footnote 1, above.

In the revised legislation, the Act should clearly authorize the use of such a Board and the Rules should expressly provide for its institution and procedures. A review should be conducted of the rules of procedure in opposition proceedings, in particular the application of rules of evidence and the various time limits to ensure that the procedure is as expeditious as possible. A particular reform that appears to be needed is to extend the time limit for filing oppositions under s. 37(1) of the Act from one month to two months.<sup>12</sup>

#### V. Qualifications to Become a Trade Mark Agent

The Rules presently provide that "any person who ... is a barrister, solicitor or advocate entitled to practise as such in any province of Canada, or is a notary entitled to practise his profession under the laws of the Province of Quebec,"<sup>13</sup> may be registered as a trade mark agent. Given the complexity of trade mark law and practice, there is a serious question as to whether the public is being properly served by permitting persons who have not passed the prescribed qualifying examination to be registered as agents. Consideration should be given to requiring all persons to pass the qualifying examination who wish to be registered after the date of the proposed rule changes.

#### VI. Disclaimers and Misleading Trade Marks

##### A. Introduction

Some persons have expressed concern that the existing legislation does not give the Registrar sufficient power to deny registration to potentially misleading or deceptive trade marks. There follow some proposals, presented for public discussion, which are designed to give the Registrar greater power to refuse registration of potentially objectionable marks or to prohibit their adoption and use.

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12. This type of provision should appear in the Rules.

13. Rule 21(b).

## B. Section 9

Consideration might be given to adopting a general prohibition against the use of misleading or deceptive trade marks; such as an amendment to s. 9 of the Act:

- s. 9(3) No person shall adopt in connection with a business, as a trade mark or otherwise, any mark reasonably likely to mislead or deceive the public in Canada.

The further effect of such an amendment would be to prevent the registration of such marks.<sup>14</sup> A possible objection to such a provision is that it may be too general, neither giving would-be mark users a clear indication of what is prohibited nor providing an effective protection for the public interest. Further, the provision might be duplicative of other legislation, e.g., s. 7(d) of the Trade Marks Act, the Combines Investigation Act<sup>15</sup> or the Consumer Packaging and Labelling Act.<sup>16</sup>

## C. Section 12

The scope of the Registrar's power under s. 12(1)(b) might be somewhat extended by amending s. 12(1)(b) in the following manner:

- s. 12(1) ... a trade mark is registrable  
if it is not ...  
(b) whether depicted, written or  
sounded, either clearly descriptive  
or deceptively misdescriptive in

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14. Act, s. 12(1)(e).

15. See Bill C-227, ss. 29(1); 36; 36.1.

16. S.C., 1971, c. 41, ss. 2(a); 3(1); 7(1),  
(2); 18(1)(g).

in the French or English languages  
of the wares or services in associ-  
ation with which it is used or pro-  
posed to be used or of the conditions  
of or of their place of origin,

- s. 2 "descriptive or deceptively misdes-  
criptive" includes descriptive or  
deceptively misdescriptive as to  
nature, character, quality or function.

D. Disclaimers, s. 34

It can be argued that permitting disclaimers of the unregistrable portion of a mark is not in the public interest. The tests of registrability in s. 12 are public interest tests - where the public includes other traders who should be free to use descriptions of their products, or the consuming public who should not be misled as to product characteristics. It may be argued that while the registrant does not get any exclusive rights in the matter disclaimed, the registration even with the disclaimer discourages other traders from using the disclaimed matter in describing their products. Further, the availability of the disclaimer procedure encourages traders to adopt inherently unregistrable matter as part of their marks, which practice is not in the public interest, particularly if the matter is unregistrable because it is "deceptively misdescriptive".<sup>17</sup> Consequently an amendment to s. 34 should be considered like the following:

- s. 34(2) Notwithstanding subsection (1)  
of this section no applicant may be  
permitted to disclaim any portion  
of the trade mark in his application  
if the portion disclaimed or the por-  
tion disclaimed together with that  
portion not disclaimed would be mis-  
leading or deceptive of the public.

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17. Act, s. 12(1)(b). Such registrants probably hope that through use of their mark the disclaimed part will acquire secondary meaning and become registrable under s. 12(2).

The inability to disclaim would render the mark unregistrable under s. 12(1) of the Act. However, if such material became distinctive through use, it could be registered under s. 12(2).

E. Secondary Meaning, s. 12(2)

It can be argued that the potential for registering under s. 12(2) marks or parts of marks that are inherently unregistrable under s. 12(1) of the Act encourages some mark users to adopt such marks. If s. 12(1) states public interest tests of registrability as was suggested above, then encouraging the adoption of such marks is not in the public interest. Therefore, consideration could be given to eliminating s. 12(2) from the Act and leaving such marks to whatever protection might be available under s. 7 or the common law.

VII. Transition

One important problem which permeates all proposals for reform is that of dealing with the transition from the existing law to any new law adopted. Obviously, provision must be made for transitional problems in any amended trade marks system. When the nature of the amended trade marks system to be adopted has become clearer, then provisions can be drafted to deal with transition. A general recommendation might be made, however. Any amended trade marks system will be that which on the best information and analysis available to the policy makers is most suited to the Canadian public interests. Consequently, the presumption should be that the owners of rights under the present legal system should be required to conform to the new system unless good public interest reasons can be adduced as to why they should not.

APPENDIX  
SOME  
SUGGESTED AMENDMENTS TO  
THE TRADE MARKS ACT

- NOTES:
1. These suggested sections are taken from the Working Paper. The numbers after each section indicate the pages on which the suggested sections are found in the Working Paper.
  2. These sections are not presented as a draft of the new or amended Act. They are included simply to facilitate discussion of the substance of the proposals in the Working Paper.
  3. The numbering of sections corresponds to the present Trade Marks Act. Where a capital letter is introduced into the numbering of sections, it indicates a suggested entirely new section which might fit into the present Act where indicated by the section number used. For example, "s. 49(1)A", would indicate a proposed, new subsection that might follow the present subsection 49(1).

TRADE MARKS ACT  
(R.S.C., 1971, c.T-10)

Suggested Amendments  
(Underlined Portions are New)

Section 2. In this Act

"certification mark" means a mark that is used for the purpose of distinguishing or so as to distinguish wares or services that are of a defined standard, and are certified to be of that standard by the owner of the mark, with respect to ...  
[parts (a) to (d)]

from wares or services that are not of such a defined standard and are not certified to be of that standard by the owner of the mark.

(p. 74)

"confusion" when applied to the result of the use of a trade mark or trade name, means confusion caused in the manner and circumstances described in section 6.

(p. 130)

"distinctive" in relation to a trade mark means a trade mark that actually distinguishes the wares or services in association with which it is used by its owner from the wares or services of others or is inherently capable of so distinguishing them".

(p. 163)

Unless specified otherwise, in this Act "distinctive" in relation to a trade mark means a trade mark that either actually distinguishes the goods or services in association with which it is used by its owner or persons related to its owner from the goods or services of others or is adapted so to distinguish them, throughout Canada.

(p. 148)

"owner of a trade mark" means

- a) the person who first uses the trade mark in Canada or a person related to such person, or
- b) the person who first makes the trade mark known in Canada, or a person related to such person, or
- c) a person who is qualified to register the trade mark under the provisions of subsection 16(2), or
- d) the person who first applies and is qualified to register the trade mark as a proposed trade mark under subsection 16(3).

(pp. 250-251)

"proposed trade mark" means a mark that is proposed to be used by a person for the purpose of distinguishing or so as to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others; and includes a proposed certification mark which is a mark that is proposed to be used for the purpose of distinguishing or so as to distinguish wares or services that are of a defined standard and are certified by the owner of the mark to be of that defined standard with respect to

- (a) the character or quality of the wares or services,
- (b) the working conditions under which the wares have been produced or the services performed,
- (c) the class of persons by whom the wares have been produced or the services performed, or
- (d) the area within which the wares have been produced or the services performed,

from wares or services that are not of such a defined standard and are not certified by the owner of the mark to be of that defined standard.

(p. 64)

"trade mark" means

- (a) a mark that is used by the owner or persons related to the owner for the purpose of distinguishing or so as to distinguish goods or services manufac-

tured, processed, produced, sold, distributed, leased, hired or performed by the owner or persons related to the owner from those manufactured, processed, produced, sold, distributed, leased, hired or performed by others.

[(b) to (d) as in present Act]

(p. 44)

Section 2A. For the purposes of this Act a person shall be related to another person or persons as herein provided:

- (a) persons are related if they are companies that are members of a group of two or more companies one of which, directly or indirectly, owns or controls otherwise than by way of security only shares of the other companies carrying more than 50 per cent of the votes for the election of the directors of those companies, and such voting rights are sufficient, if exercised, to elect a majority of the directors of the other companies; and
- (b) persons are related where they are parties to any licensing agreement or arrangement pursuant to Section 49 [as amended] as licensor or licensee, whereby the licensor as the owner of a trade mark authorizes or permits another person as licensee to use such trade mark for any period of time, definite or indefinite, with or without consideration in which the owner of the trade mark or a person related to him under paragraph (a) of this subsection retains any right of reversion or other interest in the trade mark rights so licensed.

(c) where one person is related to another under either paragraph (a) or (b) in this subsection, that person is related to every other person to which that other person is related."

Alternative to part (c)

(c) where a person is related to the owner of a mark under paragraph (b) of this subsection, that person is related to every other person related to the owner of the mark under paragraph (b) of this subsection and is related to every person related to the owner of the trade mark under paragraph (a) of this subsection.

(pp. 46 and 50)

Section 4A. (1). Use of a trade mark by a person related to a trade mark owner shall be deemed to be use by the trade mark owner and to have the same effect for all purposes of this Act as use of the trade mark by the owner of the trade mark.

(p. 102)

4(2). A trade mark is deemed to be used in association with services if it is used or displayed in the performance of such services, or if it is used or displayed in the advertising of such services provided that such services are actually performed.

(p. 245)

Section 5. A trade mark is deemed to be made known in Canada by a person only if it is used by such person or a person related to such person in a country of the Union other than Canada, in association with wares or services, and ...

(p. 247)

Section 6(2). The use of a trade mark causes confusion with another trade mark if the use of both trade marks in the same area would be likely to lead to the inference that the goods or services associated with such trade marks are manufactured, processed, produced, sold, distributed, leased, hired, or performed by the same person, or persons related to the same person, whether or not such goods or services are of the same general class.

Similar changes should be introduced into 6(3) and 6(4).

(pp. 128-129)

6(4)A. The use of a trade mark, trade name or certification mark causes confusion with another certification mark if the use of both the trade mark, trade name or certification mark and the other certification mark in the same area would be likely to lead to the inference that the wares or services associated with the trade mark, certification mark or with the business carried on under the trade name are certified, manufactured, sold, leased, hired, performed, sponsored or approved by the same person or by persons related to the same person or by licensees of the same person under subsection 23(2) [as amended.]

(p. 78)

Section 7. No person shall

...

(f) direct public attention to his goods, services or business in such a way as to cause or be likely to cause confusion, mistake or deception in Canada, at the time he commenced so to direct attention to them, as to the affiliation, connection or association of such person or as to the sponsorship or approval of such person's goods, services or business.

(p. 167)

7(e). delete

(p. 173)

Section 9(3). No person shall adopt in connection with a business, as a trade mark or otherwise, any mark reasonably likely to mislead or deceive the public in Canada.

(p. 277)

Section 12(1). ... a trade mark is registrable if it is not

...

(b) whether depicted, written or sounded, either clearly descriptive or deceptively misdescriptive in the French or English languages of the wares or services in association with which it is used or of the conditions of or the persons employed in their production or of their place or origin,

Section 2. "descriptive or deceptively misdescriptive" includes descriptive or deceptively misdescriptive as to nature, character, quality or function.

(pp. 277-278)

Section 14(1). Delete

(p. 254)

Section 16(1). An owner of a trade mark who has filed an application in accordance with section 29 for registration of a trade mark that is registrable and that he or his predecessor in title or persons related to him or his predecessor in title has used or made known in Canada in association with goods or services is entitled subject to section 37, to secure its registration in respect of such goods or services, unless at the date on which he or his predecessor in title or the persons related to him or his predecessor in title first so used it or made it known it was confusing with  
...

[Continues as in present Act]

(p. 250)

16(1)A. For the purposes of s. 16(1) a trade mark is deemed to be used in association with goods in Canada by a person if the mark is deemed to be used in Canada within subsection 4(1), whether or not such person is the transferor of the property in or possession of such goods in Canada, provided that such trade mark is used for the purpose of distinguishing or so as to distinguish in Canada the goods of such person or of persons related to such person from the goods of others.

(p. 248)

16(1)B. Nothing in this Act [Section 49] confers on a licensee of a trade mark any right to register such trade mark.

(p. 251)

(Above, an alternative to s. 49(11), below.)

Section 17. (1). No application for registration of a trade mark that has been advertised in accordance with section 36 shall be refused and no registration of a trade mark shall be expunged or amended or held invalid on the ground of any previous use or making known of a confusing trade mark or trade name by a person other than the applicant for such registration or his predecessor in title, except at the instance of such other person or his successor in title, or a person related to such other person or his successor in title, and the burden lies on such other person or his successor to establish that he has not abandoned such confusing trade mark or trade name at the date of advertisement of the applicant's application.

(p. 247)

Section 20. The right of the owner of a registered trade mark to its exclusive use shall be deemed to be infringed by a person not entitled to its use under this Act who sells, distributes or advertises goods or services in association with the trade mark or another trade mark or trade name, in a manner which causes or is likely to cause confusion, but no registration of a trade mark prevents a person from making

(a) any bona fide use of his personal name as a trade name, or

(b) any bona fide use, other than  
as a trade mark,

(i) of the geographical name  
of his place of business, or

(ii) of any accurate description  
of the character or quality of  
his wares or services,

(pp. 129-130)

in such a manner as is not likely to  
cause confusion."

(p. 142)

Section 20A. (1). The right of the owner of a  
registered or unregistered trade mark to  
its exclusive use shall be deemed not to  
be infringed by a person who imports,  
sells, distributes or advertises goods  
in association with the trade mark or a  
confusing trade mark where such goods are  
or have been imported into Canada and the  
trade mark was used in association with such  
goods by a person related to the registered  
owner or owner of such trade mark.

20A. (2). For the purposes of this Section  
"person related" shall have the meaning pro-  
vided in s. 2A except that in any legal pro-  
ceedings a licensing agreement or arrange-  
ment which otherwise complies with s. 2A(b)  
shall be deemed to be pursuant to Section 49.

(p. 218)

20B. (1). In any case in which a person  
does an act which except for s. 20A would  
be, or be deemed to be contrary to the  
rights of the owner or registered owner  
of a trade mark, the owner or registered  
owner may make application to the Registrar  
for an order under this section.

(2). Subject to any agreement subsisting between the parties, a licensee of a trade mark may call upon the owner thereof to make an application under this Section, and, if the owner refuses or neglects to do so within two months after being so called upon, the licensee may make application in his own name as if he were the owner, making the owner a defendant; but an owner so added as defendant is not liable for any costs unless he takes part in the proceedings.

(3). The owner or registered owner shall provide notice of such application to such person, the Attorney General of Canada and such other persons as the Registrar may prescribe.

(4). Upon hearing all persons interested, the Registrar may grant an order under this section if he is satisfied that, as between the goods imported pursuant to Section 20A(1) and the goods manufactured, sold or distributed in Canada in association with such trade mark by the owner or registered owner of the trade mark or persons related to such owner or registered owner,

i) There are substantial and important differences in the characteristics of the goods such as are likely to cause deception of the consumers of such goods, or

ii) There are substantial and important differences in the repair or replacement services available for such goods as are likely to cause deception of the consumers of such goods.

(5). An order granted under this Section shall require such person who imports, sells, distributes or advertises such goods pursuant to Section 20A(1) to provide consumers, at or before the purchase or consumption of such goods, with adequate notice of the differences between such goods and those manufactured, sold or distributed by the owner or registered owner of the trade mark or persons related to such owner or registered owner.

(6). If a person subject to an order under this Section fails to observe the requirements of such order, he shall not be entitled to the benefit of Section 20A in any legal proceedings.

(7). The Governor in Council may make regulations for carrying into effect the purposes and provisions of this Section.

(pp. 232-234)

Section 21(1). Where, in any proceedings respecting a registered trade mark of which the registration is entitled to the protection of subsection 17(2), it is made to appear to the Federal Court of Canada that one of the parties to the proceedings, other than the registered owner of the trade mark, had in good faith used a confusing trade mark or trade name in Canada before the date of the first use in Canada of the registered trade mark by the registrant, and the Court considers that it is not contrary to the public interest that the continued use of the confusing trade mark or trade name should be permitted in a defined territorial area concurrently with the use of the registered trade mark, it may, subject to such terms as it deems just, order that such other party may continue to use the confusing trade mark

or trade name within such area with an adequate specified distinction from the registered trade mark.

(pp. 159-160)

21(1)A. Where, in any proceedings respecting a registered trade mark, it is made to appear to the Federal Court of Canada that one of the parties to the proceedings, other than the registered owner of the trade mark, had in good faith used a confusing trade mark or trade name in Canada after the first use of the registered trade mark by the registrant but before the date of filing of the application for such registration, and the Court considers that it is not contrary to the public interest that the continued use of the confusing trade mark or trade name should be permitted in a defined territorial area concurrently with the use of the registered trade mark, it may, subject to such terms as it deems just, order that such other party may continue to use the confusing trade mark or trade name within such area with an adequate specified distinction from the registered trade mark.

(p. 161)

Section 22. (Deleted)

(p. 134)

Section 23(1). Certification mark may be adopted and registered only by a person who is not, and who is not related to a person who is, engaged in the manufacture, sale, leasing or hiring of wares or the performance of services such as those in association with which the certification mark is used.

23(1)A. The registration of a certification mark is invalid if the owner of the certification mark or a person related to the owner of the certification mark engages in the manufacture, sale, leasing or hiring of such wares or the performance of services such as those in association with which the certification mark is used.

23(1)B. For the purposes of this section persons are deemed to be related if they are members of a group of two or more persons at least one of which is a company, and one of which, directly or indirectly, owns, controls or receives the benefit of shares of the other persons which are companies carrying voting rights sufficient to elect a majority of the directors of such companies.

(p. 67)

23(1)C. (1). Subject to section 12, a certification mark is registrable if the Registrar is satisfied that the applicant is competent to establish the defined standard and to certify the wares or services in respect of which the mark is to be registered, that the defined standard is satisfactory, that the provisions for testing that the wares or services are of the defined standard are satisfactory, and that allowing the registration applied for would be to the public benefit.

23(1)C. (2). The Governor-in-Council may make regulations establishing requirements for the registrability of certification marks.

(pp. 72-73)

23(2)A. For each licence entered into under subsection 23(2) the owner of the certification mark shall file with the Registrar information as is prescribed by regulations.

23(2)B. Where the information required under subsection 23(2)A is not filed with the Registrar the use of the certification mark by the licensee shall not be deemed to be use thereof by the owner.

(p. 65)

23(2)C. The owner of a certification mark shall licence any person to use the mark in association with wares or services that meet the defined standard who requests such a licence, provided that such person agrees to use the mark only in association with wares and services that meet the defined standard, is reasonably capable of so using the mark, and agrees to such other terms as are required by the certification mark owner which may include the payment of a royalty to the certification mark owner.

23(2)D. The terms of any licence granted by the certification mark owner under s. 23(2)C shall not be unreasonably discriminatory as compared with other licences granted by the certification mark owner whether under s. 23(2)C or otherwise under this Act.

23(2)E. A certification mark owner may terminate a licence to use the mark for failure of the licensee to comply with the terms of such licence but the certification mark owner shall not terminate any licence in an unreasonably discriminatory manner as among all licensees.

23(2)F. Any person who has requested from the owner of a certification mark a licence to use the mark as provided in subsection 23(2)C and has not received such a licence within a reasonable time, may apply to the Registrar who shall direct the certification mark owner to grant such a licence on such terms as the Registrar deems proper in the circumstances if the Registrar finds that the failure to grant such a licence was contrary to this Act.

23(2)G. Any person whose licence to use a certification mark has been terminated contrary to this Act may apply to the Registrar who shall direct the certification mark owner to reinstate such licence on such terms as the Registrar deems proper.

23(2)H. The Governor-in-Council may make regulations for carrying into effect the purposes and provisions of this section.

(pp. 69-71)

23(3). The right of an owner of a registered certification mark to its exclusive use is deemed to be infringed

- a) by any person who is not licensed to so use the mark who uses it as a certification mark in association with the wares or services in respect of which the mark is registered, or
- b) by any person who is licensed to use the mark but who uses it in association with wares or services in respect of which the mark is registered but to which his licence does not extend or which are not of the defined standard, or

- c) by any person who uses the mark as a certification mark in association with wares or services in respect of which the mark is not registered or who uses the mark as a trade mark or trade name in association with any wares or services so as to cause confusion with the registered certification mark, or
- d) by any person who uses another certification mark, trade mark or trade name in association with any wares or services so as to cause confusion with the registered certification mark.

(p. 77)

Sections: 26(2); 27; 29; 37(3), etc. deleted, substance transferred to the Rules.

(p. 272)

Section 34(2). Notwithstanding subsection (1) of this section no applicant may be permitted to disclaim any portion of the trade mark in his application if the portion disclaimed or the portion disclaimed together with that portion not disclaimed would be misleading or deceptive of the public.

(p. 278)

Section 39(2). When an application for registration of a proposed trade mark is allowed, the Registrar shall give notice to the applicant accordingly and shall register the trade mark and issue a certificate of its registration upon receipt of a declaration that the applicant, his successor in title or a person approved as a successor in title or a person approved as a registered user under subsection 49(7), or in the case of a proposed certification mark a person who is a licensee under s. 23(2)

[as amended], has commenced the use of the trade mark in Canada in association with the wares or services specified in the application.

(p. 65)

Section 44(1). The Registrar may at any time and, at the written request made after three years from the date of the registration by any person who pays the prescribed fee shall, unless he sees good reason to the contrary, give notice to the registered owner requiring him or his authorized agent to furnish within three months an affidavit or statutory declaration showing with respect to each of the wares or services specified in the registration, whether the trade mark was in use in Canada on the date of the said notice or within one month preceding that date and, if not in use in Canada at the date of the affidavit and at the date of the said notice or within the preceding month, the date when it was last so in use and the reason for the absence of such use since such date.

44(1)A. The notice in subsection 1 shall require the registrant to attach as exhibits to his affidavit or statutory declaration sufficient evidence including then current samples of the trade mark in use, to demonstrate that the trade mark is in use in Canada.

44(1)B. For the purposes of this Section, a trade mark is in use if the mark is in bona fide use as a trade mark in Canada as provided for in Section 4.

44(1)C. The Registrar may in his discretion require that such affidavit or statutory declaration disclose such further evidence of the use of the trade mark at the said dates as he considers appropriate in the circumstances.

44(2),(3) (Same as in present Act)

44(3)A. Where a trade mark owner alleges special circumstances as a justification for non-use of a trade mark, he shall be required to establish the existence of the special circumstances, that such special circumstances are beyond the control of the trade mark owner and constitute a reasonable explanation for the non-use of a registered trade mark, that the registrant bona fide intends to use the trade mark as soon as the special circumstances permit the use of the trade mark in Canada within a reasonable period.

44(5)A. In any legal proceedings, expungement of the registration of a trade mark under this Section, together with a finding by the Registrar that the mark has been unused for three years prior to the date of the notice as required by subsection (1), shall be deemed to be prima facie proof that the trade mark had been abandoned as of the date of such notice.

44(5)B. In any legal proceedings, expungement of the registration of a trade mark pursuant to this Section, together with a finding by the Registrar that the mark has been unused for seven years prior to the date of the notice required by subsection (1), shall be deemed to be proof that the trade mark had been abandoned as of the date of such notice.

(pp. 265-267)

Section 47(1). A trade mark, whether registered or unregistered, is transferable, either in connection with or separately from the goodwill of the business and in respect of either all or some of the wares or services in association with which it has been used, provided that nothing in this subsection prevents a trade mark from being held not to be distinctive from such a transfer.

47(2). Not so as to limit the generality of the proviso in subsection (1), nothing in subsection (1) prevents a trade mark from being held not to be distinctive if as a result of a transfer thereof there subsisted rights in two or more persons to the use of confusing trade marks and such rights were exercised by such persons.

(p. 110)

47(2). Notwithstanding any use of notices as provided for in subsection (4) of this section, nothing in subsection (1) prevents  
... .

(Above words to be added to s. 47(2) as introduction)

(p. 113)

47(3)A. The transferee of a registered trade mark shall cause the transfer to be registered as prescribed by regulations.

47(3)B. Every assignment of a registered trade mark is void against any subsequent assignee, unless such assignment is registered before the registration of the assignment under which the subsequent assignee claims.

(p. 114)

47(4). The transfer of a trade mark shall not result in a trade mark being found to be not distinctive of the goods or services of the transferee merely as a result of the use of the mark by the transferee or by persons related to the transferee, if the transferee of the mark or persons related to him have used public notices of the transfer as prescribed by regulations.

(pp. 111-112)

Section 49(1). A person other than the owner of a registered trade mark, may be licensed to use such trade mark by the owner, and such person is deemed always to have been permitted to be so licensed to use the mark, for all or any of the wares or services for which it is registered, provided that provisions of the licence and the performance of the licence throughout its existence comply with this section.

(p. 100)

49(1)A(1). A person other than the owner of an unregistered trade mark may be licensed to use such trade mark by the owner, and such a person is deemed always to have been permitted to be so licensed to use such a trade mark, for the goods or services for which such trade mark is distinctive, provided that the provisions of such a licensing agreement and the performance of the licensing agreement through its existence, comply with the requirements of this Section.

49(1)A(2). For the purposes of subsection 49(1)A(1), "distinctive" in relation to a trade mark means a trade mark that actually distinguishes the goods or services in association with which it is used by its owner from the goods or services of others.

(pp. 90-91)

49(2). Any licence under subsection 1 of this section shall,

- a) provide for effective control by the licensor over the licensee with respect to,
  - i) the manner of use of the trade mark by the licensee, and
  - ii) the nature, character and quality of the wares or services in association with which the mark is used by the licensee, and
- b) require the licensor effectively to monitor, to test and to observe the manner of use of the mark by the licensee and the nature, character and quality of the wares or services in association with which the mark is used by the licensee to ensure that such manner of use and that such wares or services are of the nature, character and quality prescribed by the licensor.

49(3). Any licence under subsection 1 shall be performed by all parties to it according to the requirements of subsection 2, and shall be performed throughout its existence by all parties to it so that the licensor has effective control over the manner of use of the mark by the licensee and effective control over the nature, character and quality of the wares or services in association with which the mark is used by the licensee.

49(4). The Governor in Council may make regulations for prescribing the requirements for a licence of a trade mark under subsection 2.

49(5). Similar to present 49(4). Should the right to sue be extended to the licensees of unregistered marks?

49(6). Nothing in this section prevents a trade mark from being held not to be distinctive if a person other than the owner of a trade mark uses such trade mark otherwise than as permitted by this Act.

49(7). Without limiting the generality of subsection (6) a licence of a trade mark is invalid, and use by any licensee under such licence is not use by the owner, if such licence causes, or is likely to cause, deception or confusion.

(pp. 100-102)

49(11). Nothing in this Act confers on a licensee of a trade mark any right to register such trade mark or any transferable right to the use of such trade mark.

[Alternative to s. 16(1)B, above]

(p. 251)

49(A)(1). The owner of a registered trade mark, or in the case of a transfer the transferee, shall file with the Registrar such information as may be required by regulation concerning use of the trade mark by persons related to the trade mark owner or concerning any assignment of the trade mark.

(p. 116)

49A(2). No action for infringement shall be brought by a trade mark owner, licensee or transferee during or in respect of any period during which the information required by subsection (1) of this section has not been filed.

(3). On application of the trade mark owner or transferee the Registrar may authorize the bringing of any infringement action the bringing of which is prohibited by subsection (2) provided that he is satisfied that the failure to file the information was due to oversight or error on the part of the trade mark owner and not with the intent to avoid the requirements of subsection (1), and provided that the required information is filed with the Registrar.

(pp. 118-119)

Section 53 "Any person interested" (which includes Attorney General) to be expressly permitted to apply for a remedy under this section.

(p. 176)

53A. Any person who does any act contrary to Sections 7, 9, 10 or 11 of this Act is guilty of an indictable offence and is liable to a fine not exceeding \$10,000 or to imprisonment for a term of two years, or to both.

(p. 176).











